Accountancy

ESTABLISHED 1889

Education and Training

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Control of Stocks

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Fringe Benefits and Schedule D

THE JOURNAL OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES

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The Institute of Chartered Accountants
in England and Wales

Incorporated by Royal Charter, May 11, 1880

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Accountancy

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Professional Notes

The Annual Meeting

AN INNOVATION AT the eightieth Annual Meeting of The Institute of Chartered Accountants in England and Wales, held in London on May 3, was the circularisation of the President's Address in printed form. This enabled the President, Mr. S. John Pears, F.C.A., to cover more fully than would have been possible in the limited time at his disposal the "remarkable volume and diversity of Institute activity".

Reminding members of some of the many ways in which the Council now serves them and the public, the President considered recent developments in the *Members' Handbook*. He expressed the view that Recommendation No. 22 on the Treatment of Stock-in-Trade and Work in Progress in Financial Accounts was one of the most important ever issued by the Council. A good deal of progress had been made in the preparation of a series of statements on auditing parallel to the Recommendations on Accounting Principles, and he believed that before long the Council would be able to issue such a series.

In the field of taxation, the President discussed the value of the representations which the Council makes to the Chancellor of the Exchequer. A successful outcome was hoped for on three matters raised recently: first, the need for the issue of an explanatory memorandum with each Finance Bill; second, the need for legislation to counteract the Court decisions preventing due apportionment of expenditure when it consists partly of repairs and partly of improvements to the fixed assets of a business; third, the need for substantial improvement in the wording of assessment notices.

The President welcomed the report of the Education and Training Committee (discussed on page 253 and summarised on pages 277–279), adding "There is plenty of room for controversy, and it is therefore important that the report should be widely read and that those who have views to express should express them."

There will doubtless be disappointment in some quarters—there was evidence of this at the Annual Meeting—when the President's remarks concerning registration are studied. "Much of what is said on this subject appears to be based on the assumption that a registration measure would be for the protection of qualified accountants. In fact, of course, Parliament would never contemplate passing a registration measure except on the basis that it is necessary for the protection of the public." In his view chartered accountants would stand to lose rather than gain from registration. The conclusion the Council reached some years ago, after ten years' work in conjunction with the other recognised bodies—still accepted today—was that it was not possible to introduce a registration measure which would be of benefit to the public and satisfactory to the profession, but if some practical proposal were put forward the Council would be happy to co-operate in examining it.

Discussing Institute finances, the President pointed out that the present building is entirely inadequate for current needs, let alone the needs of future generations. Development plans were in train, and he hoped to make an announcement during the present year. Because of this and the expansion which must take place in Institute activities, income deficits would be unavoidable unless steps were taken to increase income.

The announcement that the Council has decided by way of experiment to arrange an entirely new form of annual meeting will no doubt appeal to many members, particularly those from the provinces. The proposal is, in outline, to occupy a whole day in group discussions and the annual meeting and to end in the evening with a reception and dance or other suitable social activity.

Eleven members of the Council retired by rotation under bye-law 5 and were eligible for re-election; in addition Mr. Robert Barlow, V.R.D., F.C.A., of Chelmsford, was nominated by notice given under bye-law 7 signed by eleven members of the Institute. It is seventy-four years since the previous attempt to nominate a member in this manner. That too was unsuccessful.

Valuation of Work in Progress—

THE DECISION OF the House of Lords in *Ostime* v. *Duple Motor Bodies, Ltd.* [1961] 2 All E.R. 167; 1 W.L.R. 739 [not 639 as indexed], dismissing the appeals of the Revenue, was discussed in the Editorial in ACCOUNTANCY for April (page 194). From the further reports of the case now available it is clear that the views of the Lords regarding the valuation of work in progress (unfinished motor coach bodies) in the circumstances of the case correspond fairly closely to those previously given by the Court of Appeal and noted in ACCOUNTANCY for June, 1960 (page 356). The House decided that (i) no general principle as to the method of accountancy to be adopted (that is, the "direct cost" method of valuation or the "oncost" method) could be laid down; (ii) the real question was what method best fitted the circumstances of a particular business; (iii) if a method had been adopted consistently in the past it should not be changed unless there was good reason for the change sufficient to outweigh any difficulties in the transitional year; and (iv) in the particular case it would be wrong to apply the oncost method, since the facts and findings set out in the case did not justify the Revenue in requiring the taxpayer to change from the existing practice of using the direct cost method.

—Criticisms of "Oncost" Method—

THE SPECIAL COMMISSIONERS had found that up to fairly recently the weight of accountancy opinion was in favour of the oncost method, but that now the trend in the profession was slightly away from it. Viscount Simonds said that this method presented far greater difficulties than the direct cost method, as different accountants might apply different recognised variations of it. Indirect expenditure was quite commonly divided by cost accountants into (*a*) factory expenses; (*b*) office expenses; (*c*) selling expenses, and (*d*) despatch and financial expenses. It was a common, but not universal, rule to apply the oncost method of valuation so as to include either all the factory expenses or some only of them, and to exclude the other headings of indirect expenditure. If he had to choose (which he had not) between two vaguely defined methods he would choose the direct cost method as the "less likely to violate the taxing statute." From a taxing point of view the oncost method might lead to an absurd conclusion, since an idle and unprofitable year would increase the value of work that had been or was in course of being done.

Lord Reid (with whose opinion Lords Tucker and Hodson agreed) was also critical of the oncost method of valuation and thought it necessary to find good reason for applying it in any particular case; but this *dictum* must be read subject to finding (iii) above, and would seem to apply in the main to a new business. On the other hand, he was not satisfied (as Viscount Simonds appeared to be) that market value in its ordinary sense could be applied to work in progress. The rule, cost or market value, whichever is the lower, was not a substantive rule of law, but a means of enabling the taxpayer to anticipate a loss by bringing expected loss into account, and the taxpayer must be able to do that somehow in relation to work in progress. Lord Guest said it was a familiar principle of income tax law that "the expense lies where it falls, that is, in the year in which it was incurred" (*Vallambrosa Rubber Co., Ltd.* v. *Farmer* (1910) 5 T.C. 529, 534). The oncost method of valuation offended against the rules contained in Section 137 of the Income Tax Act, 1952, since its adoption involved the recharging of the taxpayer by the disallowance of items of expenditure which would otherwise be deductible under the Section. It was the expendi-

ture of running the business as a whole in each year which was to be looked at, not the expenditure related to any particular item of profit. If any expenditure could be directly related to work in progress, this would fall to be added to the cost on the direct cost method, but no such question arose in the case.

—Recommendation 22

RECOMMENDATION 22 OF the Council of The Institute of Chartered Accountants in England and Wales issued in November, 1960, was not considered by the House of Lords, as it was issued after the evidence in the case had been given before the Special Commissioners; but, as was pointed out in the April number of ACCOUNTANCY (page 194), the judgments of the Lords provide weighty support for the Recommendation. On page 311 of this issue is published a letter from Sir Alexander Johnston, K.B.E., C.B., Chairman of the Board of Inland Revenue, setting out the Revenue's attitude to the Recommendation following a discussion with the President of the Institute and Sir William Carrington, F.C.A. As will be seen, the Recommendation is largely acceptable to the Revenue and it is agreed with the Institute that the recent decision of the Lords should not be taken as encouraging the exclusion of overheads where there has been no relevant change of circumstances (compare paragraph 33 of the Recommendation). The Revenue agrees, however, that there are circumstances in which the proportion of fixed overheads to be included in computing the cost of stock may need to be adjusted by reference to the normal level of activity.

The Revenue does not agree, as a matter of principle, that general selling costs to be incurred in the future should be allowed for, but it may be prepared in some circumstances to accept a deduction for specific identifiable items of expenditure directly connected with the stock in question. It also considers replacement price generally unacceptable for tax purposes as an alternative to actual cost or net realisable value. However, the Revenue already accepts valuation at replacement price in the case of stocks of raw materials awaiting processing, and it is willing to extend this practice in the cases and to the extent referred to in paragraph 7 of the letter.

Preliminary Statements

THE FACT THAT the London Stock Exchange proposes to alter the timing of company announcements — see page 297 of this issue—has revived the demand for better preliminary statements. After much consultation, shortly after the end of the war, there was drawn up a list of requirements for every company announcement. So far as this goes almost all companies conform to it, but there is now a general feeling that improvements are both possible and necessary. In particular, the requirement that directors should give any supplementary information needed to arrive at a reasonable appreciation of the results is more often broken than observed. Further, the attempt to keep the information required within reasonable limits has led to the exclusion of items essential to a proper assessment of results. Such items include oversea taxation, adjustments from previous years and marked alterations in the volume of investments and the income from them. Like the desirability of producing more frequent statements, these are questions for the directors to decide, and it is difficult to believe that, at least in the case of preliminary statements of the year's results, they are not aware of virtually everything that will appear in the audited accounts. While the Stock Exchange could extend, and more closely define, its requirements, everything depends in the last resort on the willingness of the directors to give an explanation of the figures—moreover, one which will bear examination when, perhaps only a few weeks later, the final figures are available. This is a matter in which accountants both in practice and in industry must be to some extent concerned and in which their opinion should have more weight.

The Position of Sterling

EVEN THOUGH THE loss on the gold and convertible currency reserves last month was much reduced (being only £26 million), this means that we have lost so far this year virtually the whole of the additions secured in the second half of 1960. A substantial slice has been used to repay old debts, but the loss has been caused mainly by the withdrawal of "hot money" attracted here last year by high interest rates and, perhaps still more, by the weakness of the dollar. These facts alone made it clear long ago that movements in the reserve offered no reliable guide to policy, but, for the past two months at least, movements in the reserve have ceased to be even a guide to the relation between the supply of sterling and the demand for it on world markets. Somewhat longer ago than that, the Bank for International Settlements was instrumental in the formation of what is now known as the Basle Agreement. Under this, a number of central banks agreed, somewhat tentatively, to hold one another's currencies in times of special stress. It is generally assumed that in recent weeks the effect of this agreement has been to increase foreign central banks' holdings of sterling, thus reducing the extent to which the Bank of England has had to absorb pounds, which it can do only by paying for them in gold or convertible foreign currencies and so running down the reserve. Hence, short-term movements in the reserve can either over- or underestimate the demand for sterling for normal purposes from people other than the foreign central banks, for, eventually, expanded holdings will have to be reduced by our purchase of some of the sterling in exchange for other currencies or gold. This does not mean that movements in the demand for sterling do not matter, but merely that we shall no longer know, even approximately, what they are in anything but the fairly long run, while the Basle Agreement continues to function. Present indications are that it will be superseded by something rather better defined. Somewhat similar arrangements existed between the wars and proved useful on some occasions. But their utility, indeed their continued existence, depends on whether the country which is under strain avails itself of the temporary relaxation afforded by

the agreement to correct the internal maladjustments responsible for the strain. It has long been clear that behind the gold influx of 1960 there lay a definite inability of this country to pay its way on current account and finance its oversea liabilities in repaying old debts and making new investments. If these investments, and those of other countries, are sound, they will lead to increased competition in export markets—a situation in which this country must be able to hold its own. This is the crux of the matter—and juggling with national reserves must not be allowed to distract our attention. However well we have done in exports, we have not done well enough and we are tending to become even less competitive than we were. This may largely hinge on prices and delivery dates, but it depends also on a complex of selling arrangements and relations with customers, actual and potential, which cannot be discussed here. The point is that costs must not be allowed to rise, and selling techniques must improve. Neither side of industry, nor the Government itself, would seem to be fully aware of the needs of the moment.

The Accountant Annual Awards

SELECTED TO RECEIVE *The Accountant* Annual Awards for 1961, out of more than eleven hundred entries, are *Albright & Wilson Ltd.* and *The Prestige Group Ltd.* Albright & Wilson Ltd. receives the award for large companies for its accounts of the year ended December 31, 1959, which were presented at the company's sixty-eighth annual meeting on April 27, 1960, and The Prestige Group receives the award for smaller companies for its accounts for the same period, presented at its annual general meeting on April 12, 1960.

The awards are made annually to companies whose shares are quoted on a recognised stock exchange in the United Kingdom, on the merit of their published reports and accounts in form and content, particular importance being attached to the adequacy and presentation of the information given.

The Lord Mayor of London, Alderman Sir Bernard Waley-Cohen, will make the presentation at the Mansion House on May 30, 1961.

Capital Expenditure in 1960

FINAL ESTIMATES OF United Kingdom capital expenditure for 1960 show a very marked recovery after the fall, which was continuous throughout 1958 and the first three quarters of 1959. At current prices the figures for manufacturing industry were 22 per cent. above those of the previous year in the final quarter. For the whole of 1960 the rise was 18 per cent. and 16 per cent. for all industries and services. In terms of 1954 prices the rises were greatest in vehicles and building work, 39 and 28 per cent. respectively for the year, and 52 and 46 per cent. for the third quarter, which was the best. At current prices, total investment of manufacturing industry was £1,033.9 million last year against a previous highest of £931.3 million in 1957. In the analysis by industry every section contributed to the rise except the chemical and allied group, for which investment dropped from £172.6 to £159.4 million. The other groups show a wide variation in percentage increases from about 5 per cent. for the food, drink and tobacco group to over 50 per cent. for metal manufactures—mainly iron and steel—and almost 50 per cent. for textiles and clothing. In absolute amounts, to a rise on the year of some £160 million, metal manufacturing contributed £68.3 million; textiles and clothing £32.2 million; motor vehicles £17.8 million; and paper and printing only £7 million odd. The high figures for industrial building square well with the forecast of a 30 per cent. rise in capital outlays by industry this year. The figures for other industries and services of which there is no analysis are for the year about three-quarters of those for manufacturing industry; but in this case the rise in outlays was at its maximum in the first quarter of 1960 and fell off sharply in the second quarter, and again in the fourth, although the total amounts at current prices rose slightly.

A Courageous Budget

IN THE DEBATE following Mr. Selwyn Lloyd's first Budget nobody has accused him of being short of new ideas. Politically, surtax relief has to be given pride of place as a matter of acute dissension. The application of the relief only to earned income has raised once more the question whether, in a world which is still held by many to be starved of capital equipment, so large a differentiation against the reward of saving is justified. The Chancellor and his lieutenants seemed to be aware of this problem, but have left it to be tackled, if at all, at a later date.

Each of the three increases in imposts designed to pay for the surtax concession—profits tax, the tax on fuel oil and motor vehicle duties—has come in for criticism, and some sympathy must be extended to those who went over to the use of fuel oil at a time when coal was short. Both in the House and outside it there is a widely held view that so far as these new demands affect industry, as they largely do, the added cost will be passed on in higher prices. This line of thought is natural enough, in view of the long history of inflation in this country and of the spate of demands for higher wage rates coupled with reduced hours and longer holidays. The view may be justified, but it is difficult to believe that a Chancellor who has produced a Budget which is, on existing estimates, virtually in overall balance and who is taking powers to absorb up to an additional £400 million of purchasing power so as to halt inflation will allow any such inflationary tendencies to go unchecked and thus render his budgetary efforts vain. It also seems clear that the Chancellor realises that a revision of the whole system of company taxation is overdue and that any overhaul might need to include a higher tax on the retention of profits than on their distribution. Among the minor tax changes the most welcome is, perhaps, the decision to allow companies operating overseas to retain the benefits of special tax concessions accorded by the country of operation.

The discussion on the two new regulators (variation of excise and other duties and a discretionary payroll tax) continues. The variation of duties is accepted as regrettable, but

raising few problems. The payroll tax has raised a storm of opposition, but it is unfortunate that it was in its aspect as a means of redistributing labour that it attracted most comment. It was quite apparent from all the official speeches, with the possible exception of that of Mr. Maudling—who as President of the Board of Trade was evidently concerned with its possible effect on labour distribution—that its main immediate objects were to mop up spending power and to increase the revenue. This view is fully confirmed by the Finance Bill.

Restrictive Practices—Transformers

THE RESTRICTIONS ENFORCED under the Associated Transformer Manufacturers' Agreement have been declared contrary to the public interest by the Restrictive Practices Court. Judgment had been reserved after a hearing lasting 25 days.

The agreement provided for minimum prices for transformers sold for use in the United Kingdom. There were 42 restrictions, divided into categories of customers and of goods, which the Association sought to justify under paragraphs (*a*), (*b*), (*d*) and (*f*) of Section 21 (1) of the Restrictive Trade Practices Act, 1956. Under paragraph (*d*), the predominant buyer of large transformers was the Central Electricity Generating Board, and the Association contended that the relevant restrictions were necessary to enable member companies to negotiate fair terms with that Board. A similar protection was claimed against the Area Electricity Boards and the National Coal Board, reliance being placed on the Court's judgment in *Re Water Tube Boilermakers' Agreement* ([1959] L.R. 1 R.P. 285, 338). The restrictions were based on the average of the three lowest cost estimates submitted by members, plus a percentage profit, less certain discounts and deductions known as selling factors. The Association also allowed collective rebates to the Electricity Boards, but it had made no attempt to defend that particular restriction.

The Court was not satisfied that there would be any loss of exports if the export agreement was abrogated. It was unlikely that there would be any lessening of effort or reduction in money spent to secure exports, and the exchange of information about foreign markets did not impress the Court as being of great value. The ending of the export agreement would help exports, because level tendering, a practice intensely disliked abroad, had lost at least one substantial order to the United Kingdom and might have lost more.

Chartered Institute of Secretaries

THE CHARTERED INSTITUTE of Secretaries has announced a new examination structure designed to "match up to modern demands in the training of young people." Mr. Stuart M. Rix, President, recognised that the "company" secretary was in a minority in the membership of his Institute and said that the syllabus had to reflect the Institute's aim to train the general administrator in the public and private sectors of industry and in the public service.

The Preliminary examination is to be discontinued, exemption being gained with the G.C.E. in suitable subjects or its equivalent. The new Intermediate examination will no longer include specialist subjects, and graduates, holders of certain professional qualifications and holders of the Ordinary National Certificate in Business Studies with suitable credits will be exempt. Specialist subjects will now be reserved for the new Final examination of nine subjects in three parts. Optional papers are to be provided in that examination to cater for the wide variety of careers likely to be followed.

Company Law Committee

MINUTES OF EVIDENCE of four more sessions of the committee on reform of company law presided over by Lord Jenkins cover, among others, the views of the Law Society, the Stock Exchange, London, and various American bodies.

Virtually everybody is concerned with the *ultra vires* rule and it was made clear that there is considerable fear that, if the rule did not exist as regards third parties, directors might usurp powers which it is designed to restrict. Both the Stock Exchange and the Law Society had a good deal to say in opposition to the issue of no-par-value preference shares—a concept which seemed to be illogical and difficult to apply; but there was wide agreement in favour of no-par-value equity shares. The Law Society raised the question whether it is desirable that preference shares should be paid off at par as a means of reducing the capital of a company: it was suggested that, in view of the ruling of the House of Lords on this point, the terms of issue of new preference shares should be carefully drafted to avoid this. The Stock Exchange representatives were submitted to a very searching examination on their proposal that the consent of shareholders should be obtained to any fundamental change in the nature of a company's activities, and on the issue of shares otherwise than pro rata to existing members of the company. Where powers of issue have already been granted to the board this question ties up with that of takeover bids, and in turn with that of a fundamental change in the nature of the activities of a company.

The 1961 Census of Production

AFTER CONSULTATION WITH the Census of Production Advisory Committee, arrangements have been made for taking next year the Census of Production for 1961. The questions asked will relate normally only to sales, work done, capital expenditure and stocks and work in progress. The scope of the census will include concerns engaged in mining, quarrying, manufacture, construction and water supply. Those engaged in construction will be required to give information about employment instead of sales and work done. Returns will be required only from a sample of businesses employing twenty-five or more persons, and those who supply the Board of Trade with monthly or quarterly figures of stocks and capital expenditure will be exempt. Where relevant, particulars must also be given of sales direct to the public and to employees. In accordance with the recommendation of the Verdon Smith Committee (Cmnd. 9276), the Board

has decided for the time being on five-yearly intervals between detailed censuses of production and between full and detailed censuses of distribution. This programme can be changed, however, in the light of circumstances and of government requirements. A detailed census of distribution is to be taken relating to this year, and full censuses of production are planned for 1963 and 1968, with a sample census in 1966.

British Life Unit Offer

A NEW MEANS of attracting investors to a block offer of units has been evolved by British Life Units, a trust managed by the British Life Office. Any applicant for the units (there appears to be a minimum of 100 units) who was in good health and below fifty-five years of age on March 20, 1961, is guaranteed, in the event of his death before March 31, 1962, a free gift of a number of units equal to those purchased — thus securing a combination of investment and life assurance for a strictly limited period. The portfolio contains shares of leading companies with growth prospects, of which one quarter are companies operating overseas. Another feature of the trust is that the whole of the bookkeeping will be done on a service basis by electronic equipment at the Business Data Processing Centre. It is claimed that this will make it possible to despatch certificates almost as soon as the purchase is checked, instead of after a delay which may run into several weeks. In addition, the full names of unit holders will be used instead of identifying numbers.

Insuring Indian Bank Deposits

A NOVEL DEPARTURE in the field of banking is under consideration by Mr. Desai, Finance Minister of India, and the leading Indian banks. As a result of the failure of the Talai Central Bank, and the serious run on the Punjab National Bank that resulted, it has been felt desirable to take some step to reassure the small depositor. Mr. Desai therefore called a meeting of the principal banks, domestic and foreign, at which a scheme for insuring small deposits was discussed. At present it is no more than a scheme, but the Indian Government is understood to be taking the matter seriously. At present the proposal is to provide, by a co-operative effort, insurance for all deposits up to 1,000 or 1,500 rupees. In this, the State Bank of India (the successor of the Imperial Bank), the six large Indian banks and the oversea exchange banks would participate, as well as the smaller Indian banks. Contributions would presumably be on the basis of total deposits — of which the State Bank alone holds something like a quarter, those of the other large banks also representing a considerable proportion. Thus the burden on the smaller banks, which may hold a majority of the smaller deposits, will not be very heavy. It appears to be assumed that those customers in a position to deposit larger amounts than the sums named are capable of looking after themselves, but if India wishes to encourage use of the banks by small depositors, these must be protected against their own ignorance.

Shorter Notes

Institute List of Members

The *List of Members* for 1961 of The Institute of Chartered Accountants in England and Wales was published on May 15, and distribution to those members who have applied for a copy is taking place over the next four weeks. The new "Red Book" contains the names and addresses of 33,867 members of the Institute—a net increase of 1,288 since the previous edition was published—but the number of pages is slightly less than last year, as space has been saved by changes in the style of the alphabetical section. There has also been a rearrangement of the entries in the topographical section for members practising in the outer London area.

Growth of Savings through Life Assurance

New net savings through life assurance achieved an all-time peak in 1960, reaching £490 million compared with £423 million in 1959. This is a net increase in the policyholders' funds after deducting all payments made in the year from the income of the funds for such purposes as death claims, maturities, annuities and other benefits to policyholders, as well as expenses of management. Factors contributing to this new net saving, which brings total life funds to £5,500 million at the end of 1960, include increased new business (and in particular pension scheme business), higher earnings on investment and better claims experience.

Egg Marketing Board

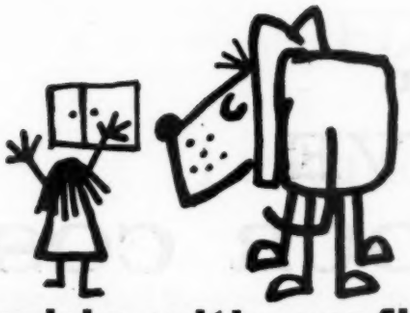
Mr. C. S. Elphinstone, F.C.A., who joined the British Egg Marketing Board in October, 1957, from private practice, has been appointed General Manager of the Board as from May 1, 1961.

Dental Rates Study Group

The Minister of Health has appointed Sir William Carrington, F.C.A., to be the first Chairman of the Dental Rates Study Group, which is now being set up on the recommendation of the Royal Commission on the Remuneration of Doctors and Dentists. The functions of the Study Group are to fix timings and then determine gross fees for each dental operation, so that the target net income for the average dentist may be achieved in the standard number of hours of work. Subsequently the Group will keep these fees under review.

Seeing's Believing

Most people in this country have some idea of the importance of gold reserves to our economy—they know that when they fall too low the authorities get tough and start tightening up hire purchase regulations, controlling capital issues, increasing the bank rate, cutting imports, taking all sorts of drastic action—but few doubt the figures published. There is never any demand that our gold stocks should be counted for fear some previous prime minister has disappeared with them, or that the authorities are hiding their true level from us. Not so in the United States. Suspicion reared its ugly head when President Eisenhower took over from Mr. Truman. Relations between the parties were very strained; one Republican suggested that Mr. Truman might be running off with some of the gold from Fort Knox, so the country's gold reserves must be counted. This year the change of administration took place calmly and almost affectionately by comparison, and there was no check on the coffers, but a handful of Congressmen (of both parties) have now demanded a seven-man team to count the gold and set their fears at rest. There should be over $17,000 million, so it will take some time to check the country's gold reserves—assuming they are all there.



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O & M TO BRITISH BUSINESS

EDITORIAL

Education and Training

THE Committee on Education and Training under the chairmanship of Mr. W. E. Parker, C.B.E., F.C.A., has now presented its report. Although the Council has pointed out that publication should not be taken to indicate its own views, it seems likely that the report will be well received by the profession.

The less controversial parts of the report can be readily disposed of. The discontinuance of the Preliminary examination will possibly be viewed with sorrow by some, but it merely recognises the general change towards nationally acceptable certificates of general education. The proposal is also reasonable that those candidates who remain at school until 17½ and pass in two subjects at advanced level should be granted a reduction in period of articles to four years. The suggestion that the Intermediate examination be reduced in scope and taken rather earlier will no doubt be universally welcomed, as will the proposal to subdivide the Final. As regards management accounting and elements of economics, Mr. H. O. H. Coulson is probably right when he suggests that "neither of these parts of subjects . . . would amount to more than a change of emphasis in the existing syllabus and represent any significant addition to the amount of study required." A change of emphasis, yes; but a change in the right direction.

Some of the proposals are controversial. Outstanding among these is the suggestion that practising members about to take an articled clerk for the first time should be interviewed on behalf of the Council by one or more senior members of the Institute to ensure they fully understand the obligations of a principal and believe they have the ability to meet them. This interview would apparently not be purely inquisitorial in nature, but would have its educational side—the written word being considered insufficiently effective for this purpose. The report itself foresees that interviews could be a source of embarrassment and might cause resentment. Certainly the British practitioner regards his office as his castle, and would surrender his freedom of action willingly only if fully convinced that "unsatisfactory principals" are so numerous as to warrant such a measure. Even then he would presumably still have to be convinced that a system of interviews would cure the evil.

It is also unlikely that the proposals on the universities scheme, which are already the subject of a dissenting memorandum by Mr. Bertram Nelson, will go unquestioned. The statement that, after fifteen years, further experience of the scheme is needed "to show whether in general the scheme should be encouraged or abandoned or changed or left as it is" seems on the face of it to be carrying circumspection to extremes. Surely some conclusion can be drawn from the fact that a plan designed to cater originally for a mere 200 students a year has still, despite the growth of the university population since the war, scarcely even now reached that level. Obviously it cannot and should not be concluded that the basic idea of the universities scheme is unsound. Accountancy alone among the professions cannot afford to cut itself off from the universities. The subject may not by itself be suitable for a degree course, but the combination of accountancy with other subjects such as law, economics, or even entirely separate disciplines like engineering, may make a real contribution to a balanced education. At the very least it may help to inculcate those orderly habits of thought and work of which many undergraduates plainly stand in need. If ideas as straightforward as these are not "catching on" after fifteen years, it seems unlikely that, in the absence of positive action, they will acquire a new momentum on their own.

If the suggestion that the time is not yet ripe for a balanced judgment on the universities scheme may cause the raising of one eyebrow, it can be fairly safely predicted that another expression of the committee's opinion will lead those particularly interested in university questions to raise both. This is the statement, in the important paragraph 175 of the report, that "Our general feeling is that the opportunities for any further extension of the profession's connection with the universities lie more in the field of post-graduate and post-qualification activities." Against this it may be argued that development concentrating on the post-graduate side before any considerable body of undergraduate studies has been established would put accountancy in a completely different category from all other university subjects, and not necessarily in a superior one. Even in the oldest and most revered branches of study it is still considered necessary for post-graduate work to rest on a broad and deep foundation of undergraduate teaching. This is certainly a subject which could bear further study.

Presumably there will now be a pause before comments and questions begin to flow in. Certainly no harm will come from the close study of this wide-ranging, honestly reasoned and well-written document. Much work has gone into it, but the members of the committee themselves are evidently willing to submit the result to the widest possible scrutiny, thus setting an example of disinterested inquiry appropriate to the subject. Fortunately, education is a matter on which there is no last word.

The Address of the President, Mr. S. John Pears, F.C.A., at the eightieth annual meeting of The Institute of Chartered Accountants in England and Wales on May 3, 1961.

The President's Address

A FEATURE OF each of the post-war years has been the remarkable volume and diversity of Institute activity recorded in the annual report. The past year has been no exception. In any year a great deal of the work of the Council and staff is concerned with day-to-day administration and with the carrying out of the primary functions of the Institute, namely, control over admission to membership through articled service and examinations, and control over professional conduct by disciplinary measures. In addition, however, there are many other ways in which the Council now renders services to members and services to the public; it is to these aspects of the Council's work that I wish to draw special attention.

COUNCIL SERVICES TO MEMBERS

The Council is always anxious to provide members with information which is helpful to them in carrying out their daily work. I would like to emphasise some of the ways in which this is now being done.

Members' Handbook

The *Members' Handbook* is gradually being built up into a substantial volume containing the Recommendations on Accounting Principles and other technical statements issued by the Council. My impression is that members generally are coming to regard this handbook as an invaluable source of reference in connection with many aspects of their work. I believe this is true of both practising and non-practising members. I hope that those members who have not yet done so will acquire the habit of using their handbook as a regular source of reference. When they do, they may be surprised to find how much useful information it does contain.

Fees

One of the additions to the handbook during the year was the new Council statement on the remuneration of practising members. This is a subject of great importance, and I am sure that after reading the new statement a great many chartered accountants will have realised that an increase in the fees they charge to their clients is long overdue. The Council statement does not, however, set up an official scale. Each member must determine his own fees on the basis indicated in the statement. If we do not ourselves place a proper value on our services we cannot expect our clients to do so. Nor can we expect to attract to the profession—and retain on the practising side—the right kind of person unless we are prepared to pay appropriate remuneration; and we cannot pay appropriate remuneration unless the fees we charge to our clients enable us to do so. Some of the information which has come to my notice during my visits round the country has led me to the conclusion that there must be a considerable number of practising members who are charging fees which are far too low. This applies to practices of all sizes. Really strenuous efforts are needed to remedy this situation. We must see to it that the services we provide and our remuneration for them are both worthy of us as chartered accountants.

Stock-in-trade

Another of the recent additions to the handbook is Recommendation No. 22 on the *Treatment of Stock-in-trade and Work in Progress in Financial Accounts.* I believe this to be one of the most important documents ever issued by the Council. It is a comprehensive review, the like of which is not to be found elsewhere, of the many considerations which need to be taken into account in arriving at the amount at which stock-in-trade and work in progress are brought into the annual accounts. My own personal view is that far too many accountants have paid far too little attention to this subject in the past. It is also a subject on which some bad practices have been engendered because of the adoption of an unrealistic attitude by the Inland Revenue. It is seldom that any good comes out of mutual distrust, and it is perhaps a happy coincidence that the Council's new Recommendation, which has taken a very long time to prepare, should have been followed so soon by the unanimous decision of the House of Lords in rejecting the Inland Revenue contention in the *Duple Motor Bodies* case. I earnestly hope that these two developments will open up a new era of really sound practice.

Auditing

Three years ago the then President, in his address to the annual meeting, mentioned that the Council had decided to see whether a series of statements on auditing could be prepared by way of parallel to the Recommendations on Accounting Principles. He said that this

possibility would need to be examined very carefully and that the preparation of such documents must inevitably take a considerable time, but he hoped it would prove possible to render assistance to members in that way. We have made a good deal of progress since then, and it is my hope and belief that before long the Council will be able to begin to issue a series of statements on auditing. I am confident that the issue of such a series could result in progress in auditing standards no less spectacular than the progress in standards of company accounting which was brought about by the Council's decision nearly twenty years ago to issue the Recommendations on Accounting Principles.

Building Societies

Meanwhile the Council has already issued a curtain raiser on auditing. Last December we issued a booklet entitled *Audits of Building Societies* for the guidance of members who act as auditors of building societies. It is available to any member who cares to apply for it. This document was thought to be necessary in view of the fundamental changes brought about by the Building Societies Act, 1960, in relation to the accounts and audit of building societies. I have reason to believe that those members who act as auditors of building societies have found the Council's booklet very helpful indeed, and I would recommend other members to read it, because much of what the Council has said about audit procedures is in principle applicable over a much wider field than building societies.

I must refrain from the temptation to comment on all the matters referred to in the annual report, but I will mention just two of the Council's activities which we hope will enhance the accountancy profession in the public esteem and thereby benefit the members of the Institute.

Company Law.

First, there is the evidence submitted by the Council to the Jenkins Committee in which, among a great many suggestions, the Council has asked that the provisions relating to qualification for appointment as auditor should apply to exempt private companies. It is a great pity that this was not done in the 1948 Act. Parliament then feared that there would not be enough qualified practitioners to cope with the very large number of exempt private companies. There cannot now be the slightest doubt that that was an entirely mistaken view. I believe it can be demonstrated that the overwhelming majority of exempt private companies already have auditors who are members of recognised bodies, and it is in the interests of both the public and the profession that the distinction at present made by the Act should be removed.

Documents Issued by Companies

The second matter to which I wish to refer is the successful outcome of the representations which the Council made to the Stock Exchange and the Issuing Houses Association about documents issued to shareholders in connection with "rights" issues and similar matters. I hope that as a result of these representations it will become the normal practice of companies to include on these documents a reference to professional accountants along with stockbrokers, bankers and solicitors as persons who should be consulted by shareholders if they do not fully understand the documents. Our object in making these representations was not to stimulate a lot of shareholders to run into accountants' offices. We had two points in mind. First, as a matter of principle, the inclusion of a reference to professional accountants was long overdue. Second, as a practical matter, a shareholder's professional accountant will often be the most appropriate person to consult, but this may not be realised if there is no indication of it on the document.

SERVICES TO THE PUBLIC

Many of the matters with which the Council has to deal are of importance not only to the profession itself but also to the public. I would like to remind you of some of the matters of this kind which are recorded in the annual report now before you.

Trustee Investments

The Council is taking an active interest in the Trustee Investments Bill. This Bill stems from the comments made about the range of trustee investments by the Nathan Committee on Charitable Trusts in its report, published as long ago as 1952; and those comments were virtually identical with those made by the Council in the memorandum which it submitted to the Nathan Committee early in 1951. In that memorandum the Council referred in some detail to the shortcomings of the existing range of trustee investments and expressed the opinion that the safety of trust funds would be increased by an extension of the range so as to include, with certain safeguards, equity stocks and shares of quoted companies. The Council pointed out that such investments contain the possibility of growth and that as they represent the right to a share in profits and assets they are ultimately associated with real values and not with money values. Perhaps I can fairly mention that the Council's own investment policy has fully justified that view. When the Trustee Investments Bill becomes law many chartered accountants will be called upon by trustees to advise them about their investments.

Decimal Currency

The Council has taken the view that it is not in the interests of the economy of the United Kingdom that there should be any further delay in deciding whether our currency should be decimalised. The Council's memorandum to the Chancellor of the Exchequer on this subject has attracted widespread attention in the Press. The view taken by the Council is that decimalisation of the currency should be officially adopted in principle and widely announced for introduction at a specified date, being the earliest date consistent with an adequate preparatory period. The Council has also expressed the view that the most appropriate basis would be the "ten shilling/cent." The precise basis is, however, of less importance than the urgent need to take the decision in principle.

Company Law

A large number of proposals has been made by the Council in its two memoranda to the Company Law Committee. The Council was, however, careful to state that it would be incorrect to assume from the length of its memoranda that the Companies Act, 1948, has proved substantially inadequate. The 1948 Act brought into operation many major reforms and it has worked well in practice. Nevertheless there are some respects in which major reforms are now required on matters which have assumed prominence since the 1948 Act was drawn up. These include the need to tighten the law relating to exempt private companies, the need for an investigation (which the Government currently has in hand) to determine what conditions should be satisfied by those who wish to invite the public to deposit money or to make loans, the need for a new Act dealing comprehensively with the whole of the law affecting unit trusts and the need for safeguards to ensure that persons whose shares are the subject of a takeover bid are given sufficient information to enable them to obtain a balanced view of the merits of the bid and to ensure that the purchase price will be paid. These are all matters which are of direct concern to the public.

Inland Revenue

Every year the Council finds a number of taxation matters on which it feels obliged to make representations to the Chancellor of the Exchequer or direct to the Inland Revenue. The Council is scrupulously careful to avoid any special pleading on behalf of particular interests, including those of the members of the Institute. The Council attaches the highest importance to the disinterested nature of its representations on taxation matters, and I have no doubt at all that the Board of Inland Revenue well recognises the value of the Council's independence. This is particularly important in view of the inevitable intrusion of party political considerations into taxation legislation. We do not by any means achieve everything for which we ask, but anyone who cares to look carefully at the extensive representations recorded each year in our annual reports will realise that we do achieve some useful results in the public interest. We are particularly hoping for a successful outcome on three matters which we have recently raised: first, the real need, to which we have previously drawn attention, for the issue of an explanatory memorandum with each Finance Bill; second, the need for legislation to counteract the court decisions which prevent a due apportionment of expenditure consisting partly of repairs and partly of improvements to the fixed assets of a business; third, the need for substantial improvement in the form of assessment notices.

Building Societies

It was not until the end of 1959 that the Government announced its intention to introduce legislation dealing with building societies. The Council had already recognised the urgent need for fundamental reform of the legislation governing the accounts and audit of building societies, and was therefore able to submit to the Chancellor of the Exchequer a comprehensive memorandum within a few days of the Government's announcement. Since then the Council has pursued this subject with great energy and was successful in having substantially all its major proposals incorporated in the Building Societies Act, 1960. It is very satisfying for the Council to have taken this substantial part in the framing of legislation which will be of inestimable value in safeguarding the pockets of the public.

Friendly Societies and Industrial and Provident Societies

The Building Societies Act, 1960, has for the first time placed the obligation on building societies to prepare accounts which show a true and fair view, and the obligation upon auditors to say whether in their opinion the accounts do show a true and fair view. The Council has drawn the attention of the Chancellor of the Exchequer to the desirability of similar amendments to the legislation governing the accounts and audit of friendly societies and industrial and provident societies. It really is time that this legislation was lifted out of its nineteenth-century fog. I am therefore sorry to say that there is no immediate prospect of legislation to deal with these matters. I regard this as most unfortunate, and I am sure that the same view will be taken by those members who act as auditors of these societies and are obliged by statute to make an audit report in terms which are thoroughly unsatisfactory and may easily give a false sense of security.

I have so far referred only to services to the public which have been rendered by the Council. The greatest service to the public is of course provided by the membership as a whole. The members of the Institute, whether in practice or in industry or commerce, provide a great range of professional services which are essential to business organisations and to individuals in their personal affairs. Each one of us has a duty to maintain and improve the standard of his services and to uphold the standards of integrity on which our whole position today has been built up. Unless we do this there is no future in the profession. It therefore behoves us to look for warning lights. There is one which is flickering now and I feel obliged to draw attention to it.

Three of the members against whom we had to take disciplinary action last year were members who had given the certificate required under the Solicitors Act without taking sufficient steps to ensure that the accounts of the solicitors in question did in fact support the statements made in the accountant's certificate. Three is of course a very small number out of the Institute's total membership of over 34,000, but it is three too many. I regard it as appalling that even one member of the Institute should fail to carry out an adequate examination of a solicitor's accounts before giving the certificate required under the Solicitors Act. It is particularly distressing in view of the object of this type of work; the whole purpose of the Solicitor's Accounts Rules is to ensure the proper segregation by solicitors of the money which they hold for their clients. Nor is it very satisfying that such a failure

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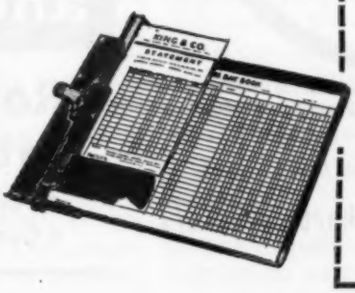

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by a member to do his duty properly is necessarily brought to the notice of the Law Society in the course of its own disciplinary proceedings against the solicitor concerned. Indeed, it is arising out of those proceedings that our own member's conduct is brought to our notice.

On a more pleasing note, I will now end these comments about services to the public by mentioning the extensive public service which is given by individual members by serving on committees and other bodies. In the annual report each year we record appointments of national importance, but there are numerous others in local and regional spheres of public service. Duties undertaken in this way are often onerous and time-consuming, but I hope and believe that in the interests of both the public and the Institute there will always be members who are ready and willing to make their experience and ability available in this way.

One of the very select company of members whose gallantry has won the Victoria Cross has recently accepted a duty of the highest importance. I refer to the appointment of the Rt. Hon. the Viscount De L'Isle, V.C., P.C., D.L., M.A., F.C.A., as Governor-General of Australia. I am sure that it will be the wish of the members in general meeting that I should send to Lord De L'Isle a message of congratulations and good wishes.

TECHNICAL ACTIVITIES

I have already referred to a good deal of the technical work undertaken by the Council. About eighteen months ago the Council appointed a Technical Activities Committee to review the whole question of our activities in the technical field. That review is still in progress and I cannot forecast what, if any, changes may result from its report in due course. But I can say with absolute confidence that our activities in this field are bound to expand.

In its technical work the Council has received great assistance from the Taxation and Research Committee, which itself has the assistance of the regional Taxation and Research Committees. In this way the Council is able to draw upon a wide field of knowledge and experience, and I am happy to express my thanks and those of the Council to these committees for the great volume of work which they do.

MEMBERSHIP, PRESENT AND FUTURE

There are now over 34,000 members of the Institute. This signifies great strength and great responsibilities. The responsibilities are shared by the individual members and the Council. One of our major responsibilities is to ensure that future members will be well qualified to undertake their duties in the broad range of activities which make up the work of the profession. The first essential is to attract the right kind of students, and much attention is given to this by widespread distribution of information booklets and in other ways.

The second essential is to ensure that students receive proper training. This responsibility rests firmly on the individual member, with such broad general guidance as the Council may give. The third essential is to examine candidates at appropriate stages in their training. This responsibility rests on the Council, as also does the final duty of deciding whether a successful examinee has had suitable experience and is in other respects fitted for admission to membership.

We must now consider, in the light of the report of the Education and Training Committee, whether the time has come to make significant changes in our educational requirements, our methods of training, our examinations and generally in our whole approach to the task of providing the Institute in the future with the best possible standard of membership. The Council warmly appreciates the work of Mr. W. E. Parker, C.B.E., F.C.A., and his committee in producing their comprehensive report, copies of which will be available next Friday, May 5, 1961. Publication has been authorised by the Council so that it may have the benefit of comments from the district societies and elsewhere before reaching any decisions about the recommendations made in the report. There is plenty of room for controversy, and it is therefore important that the report should be widely read and that those who have views to express should express them.

PUBLIC RELATIONS

For some years the General Purposes Committee of the Council has had a Public Relations Sub-Committee. In the world of today, however, there is a continually widening field in which public relations are important to the Institute, and accordingly the Council has recently appointed a Public Relations Committee as a standing committee of the Council. Spectacular results must not be expected. To a large extent the new committee will be concerned with public relations work which is already part of our normal procedure; but the whole of this work will now be co-ordinated and directed by the new committee, which is also exploring various other possibilities.

REGISTRATION

In view of recent correspondence in the accountancy press it seems necessary for me to deal with the subject of registration. Much of what is said on this subject appears to be based on the assumption that a registration measure would be for the protection of qualified accountants. In fact, of course, Parliament would never contemplate passing a registration measure except on the basis that it is necessary for the protection of the public. In my view, chartered accountants would stand to lose rather than to gain from a registration measure, but in the public interest we were fully prepared to accept that position when we took a leading part in the formulation of the Public Accountants Bill of 1946.

It is now eleven years since the Public Accountants Bill of 1946 was abandoned. This was brought about by two developments which invalidated the basis on which the Bill had been drawn. These developments were the coming into operation of the Companies Act, 1948, and the emergence of difficulties regarding the terms of the Bill. The 1948 Act introduced for the first time provisions relating to qualification for appointment as auditor, and their effects were in certain ways at variance with the

basis on which the 1946 Bill had been carefully framed. The difficulties, some of real substance, which arose on the Bill itself emerged in discussions between the Board of Trade and other interested government departments, and it would have been necessary to make fundamental changes in the draft Bill.

After the abandonment of the Bill further strenuous efforts were made by the recognised bodies in conjunction with the Board of Trade with the object of preparing a simpler form of legislation. Unfortunately these efforts were unsuccessful, because it was quite impracticable to arrive at any statutory definition of "accountancy" which would be generally acceptable, bearing in mind the number of people who, though not capable of being brought within a registration measure, nevertheless undertake work of a kind done by practising accountants. For example, taxation work has been done for many years by solicitors, estate agents, retired Inland Revenue officials, banks and others, and there is no possibility of Parliament depriving them of the freedom to do taxation work merely because accountants regard themselves as the most competent persons to perform such work.

We in the United Kingdom are, of course, not alone in having failed to find a solution to this problem. In countries where the profession is governed by statute the law does not, so far as I am aware, confer any monopoly on the profession in regard to taxation work. In fact it is doubtful whether there is any country in which the accountancy profession, whether governed by statute or not, has succeeded in establishing the position it holds in the United Kingdom in relation to taxation.

The conclusion which the Council reached some years ago, after ten years' work in conjunction with the other recognised bodies, was that it was not possible to introduce a registration measure which would be of benefit to the public and satisfactory to the profession. Those who worked so hard were very disappointed to have to admit defeat; but defeated they were in spite of their efforts and enthusiasm. In his presidential address to the annual meeting in 1953, Sir Thomas Robson said that if some practical proposal for a new solution were to become available we should be happy to co-operate with the other recognised bodies in examining it; but he said that he felt bound to emphasise that some new element would be necessary, and that merely to retread ground which had already been so thoroughly explored would not serve a useful purpose. The Council's attitude is precisely the same today.

There are, however, other lines of approach which may well achieve for the public and the profession far better results than could ever come out of a registration measure. As long ago as 1952 the recognised bodies made representations to the Board of Trade for an extension of Section 161 of the Companies Act, 1948, so that exempt private companies would be subject to the same provisions as other companies in relation to the qualification of their auditors. There was, however, little possibility of anything being done except as part of a general revision of the Companies Act. We have now made similar representations to the Jenkins Committee.

When that has been done we can usefully turn our attention to Section 52 (4) of the Income Tax Act, 1952, under which, on an appeal, the general commissioners must hear any accountant; for this purpose "accountant" is defined as "any person who has been admitted a member of an incorporated society of accountants." This provision was first introduced in 1903, and led to the formation of a number of bodies of which membership could be obtained on payment of a subscription. The formation of such bodies still continues. The useless definition in Section 52 (4) is clearly in need of amendment, and the obvious amendment is to define an accountant as a person qualified for appointment as auditor under Section 161 of the Companies Act, or rather its successor under new company legislation. If there were such a definition for tax appeal purposes, then I feel sure that the Board of Inland Revenue would be entirely justified in instructing inspectors that where business profits are involved they should decline to accept accounts prepared or audited for the taxpayer by a person who is not qualified to appear as an accountant on appeal.

If these reforms of company and tax law and practice can be achieved (and it is very much in the public interest that they should be achieved) this would solve, for all practical purposes, most of the problems without the disadvantages and cumbersome machinery of registration.

Even under the draft registration Bills to which so much enthusiastic care was devoted, there were obvious dangers for both the profession and the public. The introduction of a statutory description such as "registered accountant" would elevate in status, to the detriment of chartered accountants, all those with inferior or no qualifications who would inevitably be brought under the umbrella. I wonder how many people know what professional qualifications are held by their own doctors and dentists. My guess is that very few of them have the slightest idea, and I am sure that the same position would soon exist if the accountancy profession were brought under statutory control. Clients would know that any accountant who is in lawful practice is a registered accountant, and they would soon cease to care whether or not he is a chartered accountant.

There seems to be a mistaken impression that there are other professions which are completely closed in the sense that none of their work can be done by unregistered persons. Solicitors and doctors are often mentioned in this context. Yet there is much of the work of a solicitor which may lawfully be done by other persons—for example, anyone may draw up a will; and in the medical field it is surprising how many things, except the issue of a death certificate, may be done by an unregistered practitioner. I hope no one will assume that I am inciting unqualified persons to encroach upon the work of solicitors and doctors. I merely wish to remove what seems to be a common misapprehension on the part of those who advocate registration for accountants.

I hope I have said enough to satisfy you that registration is not likely to be of benefit to either the public or the profession, and that instead we shall be wise to pursue

other means, in particular, amendment of company and tax law, by which the public can be protected and the position of the profession can be substantially improved.

May I emphasise that the Council shares with all members their strong disapproval of the activities of unqualified accountants who advertise their services. This is bad for the profession and bad for the public. It is a highly distasteful situation on all counts. I have, however, given some explanation of the difficulties. It is difficult to see in what way the public could be protected by giving, for certain types of professional work, a statutory status to a large number of unqualified persons, and at the same time leaving entirely open to anyone a large area of the work which chartered accountants now do. Please make no mistake about it; that is what registration would mean.

INSTITUTE FINANCE

Our income and expenditure account for 1960 shows an excess of income over expenditure amounting to nearly £25,000, and our balance sheet shows that our accumulated fund has increased by a similar amount, raising the total to £301,000. This figure of course takes no account of the unrealised appreciation of over £100,000 in the value of our investments, nor does it take account of the appreciation in the value of our freehold hall and offices. I must, however, sound a note of warning. Our present building is entirely inadequate for our present needs, let alone the needs of future generations. I cannot at present give any details of our development plans, but they are under active and urgent consideration and negotiation and I hope that it will be possible to make an announcement during the present year. It is a problem of some magnitude, for which a large amount of money will be required. Because of this and the expansion which must take place in the scope and extent of the Institute's activities, it will not be possible over the next few years to avoid income deficits unless we take steps to increase our income.

NEXT YEAR'S ANNUAL MEETING

By way of experiment the Council has decided to arrange next year an entirely new form of annual meeting. Detailed plans have not yet been drawn up, but what we have in mind is to occupy a whole day with group discussions in addition to the annual meeting and end in the evening with a reception and dance or other suitable social activity. The Council hopes that arrangements of this kind will appeal to a large number of members, including many from the provinces. Full details will be announced well in advance of the 1962 meeting.

SOME ECONOMIC ISSUES

The state of the national economy is of especial interest to the chartered accountant. The fortunes of his clients are dependent upon the level of economic activity, and often the accountant is expected to advise clients on the economic prospects. The current economic situation is serious. Our immediate difficulties arise from the state of Britain's external trade. According to the White Paper on the Balance of Payments there is a deficit on current account for the year 1960 of £344 million, the worst results since 1951. The full magnitude of this deficiency may be better appreciated when it is borne in mind that if Britain is to maintain her present scale of oversea investment and at the same time increase her gold and dollar reserves to withstand any fluctuations in the trade balance, then an annual surplus on our current balance of payments of nearly £500 million is needed. This can be achieved only by expanding exports, yet over the past decade Britain's share of world trade has declined continuously from 22 to 18 per cent. Over half of British exports since the war have gone to the sterling area, and there has been a tendency in this country to assume that British goods would find it easier to compete in the Commonwealth than elsewhere in the world. This belief is only partially true, and competition in these markets has been increasing. Between 1954 and 1960 Britain's share in the sterling area's oversea trade fell from 61 to 46 per cent. In contrast, the United States share rose from 13 to 17 per cent. and the Common Market's share increased more than five points to 23.5 per cent.

The key to economic progress and our capacity to compete effectively in the world markets is an adequate level of investment in capital equipment in the United Kingdom. In the past it has been suggested that Britain's investment programme was straining our resources and contributing to our balance of payments difficulties. There is little evidence to support this thesis; in fact, Britain's investment record compares unfavourably with the achievements of her competitors. The U.N. World Economic Survey for 1959 reveals that during the period 1950–58 Britain devoted 9.9 per cent. of her national produce to productive investment, compared with nearly 17 per cent. in Japan and 13 per cent. in Western Germany. The recent Board of Trade inquiry reveals a heartening improvement in this respect; in real terms 50 per cent. more was invested in 1959 than in 1950. It cannot be doubted, however, that the inadequate investment policy has not only been a major factor in Britain's disappointing export performance, but is one of the main reasons why Britain's rate of economic growth is slower than that of any other major European country. According to the above U.N. report, the annual rate of growth between 1950–58 in Western Germany was 7.4 per cent.; it was 7.9 per cent. in Japan and 5.5 per cent. in Italy. The comparable figure for the United Kingdom was only 2.2 per cent.

The Government's Role

Confronted with these two interrelated problems—the continuously declining share of world trade accounted for by British exporters and the slow rate of economic growth—it is natural to enquire in what way the Government can help. It must of course assist British exporters by negotiating trade treaties and eliminating discriminatory practices against British goods in oversea markets. Furthermore, it must create stable conditions at home which are conducive to economic efficiency. Under the first of these requirements, the problem of Europe's division between the six and the seven (or is it now the

seven and the eight?) is outstanding. The failure so far to achieve a *rapprochement* between the European Economic Community and the European Free Trade Area could affect adversely the future of our export trade. Every month that passes without agreement strengthens the special interests within each of these groupings and makes ultimate agreement progressively more difficult. In any case, by delaying Britain's entry profitable opportunities may be forgone. In the last three years the inflow of American capital into the E.E.C. member countries, in particular Germany, has greatly increased. Much of the American capital would probably have come to Britain if the United Kingdom had been a member of the common market. Britain's relative share of United States oversea investment will contract still further in the future unless the present impasse is overcome. It is for the Government to decide whether the ultimate price to be paid in consequence of Britain's continued exclusion from the world's most rapidly expanding market may not be even greater than the price required for immediate entry. An early declaration of policy on this problem is urgent. Any decision would be preferable to the present state of uncertainty.

Even in the emergent and under-developed countries where the inflow of British investment capital has in the past ensured a corresponding demand for our exports, changes are taking place. Many of these countries expect their aid without strings, and we can no longer assume that old loyalties will guarantee preferential treatment for British products. In view of the increasingly important role played in world economic development by international organisations such as the World Bank, it is pertinent to observe that the small number of British staff within those organisations is regrettable.

The gravity of Britain's external position is underlined by the recent discussion as to the desirability or otherwise of devaluing sterling. Such a move, argue its protagonists, would give the British economy a breathing space in which to develop new policies and enable us to make the economy more flexible. On the other hand, it would at the same time virtually destroy sterling as an international currency. It is far from certain that any such breathing space would be effectively utilised; in any case it is difficult to see how it would contribute to resolving in relation to our export trade the fundamental requirements of sales presentation, price, quality and appearance, as well as delivery dates. And these, in the last resort, are dependent upon adequate incentives as well as the attitude of mind of all sections of industry to their particular tasks. More pertinent to the furthering of British exports is the development of our system of export credits. The Government is clearly concerned that British exporters of capital goods shall not be handicapped in this respect, judging by the recent steps taken to facilitate the finance of large projects for periods over five years, quite apart from the changes in the E.C.G.D. insurance scheme, designed to help the smaller exporter. Nevertheless the Chancellor himself has warned of the dangers of this country finding itself caught up in a race to give longer and longer credits on non-commercial terms, and it is to be hoped that before long a reaffirmation of the principles underlying the Berne agreement will be made by the leading exporters. The consequences of an internecine credit war between exporters of capital goods in different countries are obvious. Yet it cannot be sufficiently stressed that, however favourable the credit terms offered, they will not offset an inferior product offered at high prices.

Management's Role

Successful exporting is essentially the task of industry and not of the Government. The key to successful selling—whether at home or overseas—is the production of the right article at the price the consumer is prepared to pay. British industry has been criticised in the past for its failure to study foreign markets. It is not enough to try to sell overseas merely those goods which the British market cannot absorb. The home consumer's requirements are not necessarily the same as those of foreign buyers, and local inquiries regarding tastes and requirements are essential. Oversea markets require intensive study, and local contacts, however reliable, should be supplemented by regular visits to find out at first hand what is happening. The consideration that prices should be competitive is more often recognised than is the need for distinctive styling of a product for the local market, and the same is true of after-sales service in respect of capital equipment or certain types of consumer goods. Given that these basic requirements are met, then it is up to the sales representatives to push their goods in the market. Unfortunately, here too there has been much criticism of British methods; apparently post-war years of easy selling have not proved an ideal training ground for the new competitive world markets. For his part the manufacturer must give his sales representatives every support by keeping to the quoted price and the promised delivery dates. Even today, foreign buyers have lively recollections of post-war failures by British producers to meet their contracted delivery dates. The only way to obliterate these unfavourable impressions is through regular contact with local customers to advise them that the goods are now available, and the adoption of a policy to ensure that delivery dates once promised will be kept—either by forward planning in the factory or by carrying adequate stocks in the more distant markets. Some firms are doing all these things and have been successful. The fact is, however, that manufacturers in other countries have taken these lessons to heart. They are making determined efforts and have succeeded in increasing their trade by producing special goods for oversea markets or by adapting the domestic product to foreign needs. British industry as a whole must do the same.

While competition within industries is a stimulus to efficiency, there is surely scope for some forms of co-operation between firms, particularly those actively seeking export trade. Much more could be done in the field of exchanging information between firms in the same industry; for example, there could be joint market surveys into oversea markets and possibly the collection through some central agency of basic production costs and production times so that individual firms might com-

pare their relative performance. The same is true in the field of research, upon which many industries are spending lavishly. Scientific manpower is in short supply, but can it be confidently asserted that every scientist in Britain is being effectively used at the present time? How many identical avenues of inquiry are being followed by research workers in different firms within the same industry at the same time? Possibly such wasteful duplication of effort could be avoided by centralised research in certain basic fields of inquiry; at any rate it is worthy of consideration.

The potential value of co-operative effort in the obtaining of export orders cannot be ignored. Every duplication of expenditure on research and development means an addition to the contract price. There have been many cases of substantial export orders being achieved by the combined efforts of two or more firms. Is there not a case for enquiring whether, for certain types of large-scale and costly capital equipment, tenders for foreign contracts could be worked out between the handful of interested domestic producers? Competition from foreign firms for large-scale oversea contracts is already intensive and profit margins slender enough without British manufacturers further cutting each other's prices. Industries faced with excess capacity, monopoly buyers in the home market, restrictive labour practices and the Restrictive Practices Act—which makes co-ordination of their pricing policies difficult—might well consider co-ordinating their research and oversea selling.

I do suggest, however, that, if level prices are quoted, there should be only one British tender submitted setting out the alternative designs and delivery dates. This would go some way towards eliminating criticism that tenders from several manufacturers at the same price are objectionable and dishonest.

The Accountant's Role

It is for the accountancy profession to ensure that the manufacturer is provided with sufficient information to enable him to judge what capacity he can devote to export orders and to what extent, in tendering for oversea contracts, he can cut his profit margin and still make it worth his while to take on the work.

There is evidence that the effect of "activity" is little understood by those responsible for fixing, advising on, or criticising selling prices or the valuation of work in progress. Costs which are high because they are based on abnormally low "activity" cannot reasonably be expected to be recovered in selling prices, and ought not to be carried forward in work in progress.

The intensity of competition in world markets is tending to reduce profit margins, and it is a matter for concern —both for the firms involved as well as the national economy—that firms which are producing for both domestic and foreign markets are not always fully aware of the relevant costs incurred on particular contracts. No industry can survive if profit margins on all goods or contracts at home and abroad are cut to the bone; successful tendering for oversea contracts—particularly for large-scale capital equipment—depends on the existence of a reasonably profitable home market. It is not uncommon for a firm to undertake a contract which will yield a lower profit margin than is customary, or, when part of the firm's capacity is slack, the management will welcome a contract which will just cover prime and variable overhead costs. At other times the contract price will also cover part of the fixed overheads. Admittedly, in the long run such contracts at less than full cost will prove more profitable than the retention of idle labour and under-utilised machine capacity and other unrecovered fixed overheads. There is, however, a danger that in order to ensure full employment within the works, too many orders may be accepted by the management at too low a price.

Another related matter of which management is often not fully aware is the very heavy additional costs incurred in connection with short runs of production and the execution of small orders. Likewise, hasty forward planning in major capital works, leading to changes in plans after construction has commenced, plays havoc with the capital estimates and the profit margins.

These issues are the direct concern of the professional accountant, whether he be engaged in industry or in the profession, at board level, as a consultant, or as a technician. He may be directly interested in the production and selling policies of a company seeking new export markets; he may be consulted by client firms on the same problems. For too long the public has regarded the accountant as an exceptionally cautious individual, ever unwilling to take risks and always advocating "safety first" in all new ventures. Such a description is entirely erroneous and quite unjustified, if the accountant is doing the job he is trained to do.

If it is to play its full and proper part in the economic life of the community, the accountancy profession must become more dynamic and interested in the commercial aspects of its clients' business. It must be prepared to advise, in conjunction with research staff and technical advisers, on all major projects and developments. Only in this way can technical efficiency be achieved at lowest practicable commercial cost, without which success in oversea markets is unattainable.

APPRECIATION OF SECRETARY AND STAFF

The magnitude of the work which the staff undertook during the year is demonstrated by the very full annual report. All members of the Institute are, therefore, greatly indebted to the Secretary, Deputy Secretary, Under-Secretaries, and to the rest of the staff for their outstandingly good service. As President it is possible for the first time to appreciate fully the extent and value of their services.

During my year of office, I received splendid support from the Secretary, Mr. Alan MacIver, and the Deputy Secretary, Mr. F. M. Wilkinson. It was my good fortune that during this period Mr. MacIver was sufficiently restored to health to be able to accompany me on my district visits, which greatly added to my pleasure. As regards Mr. Wilkinson I can only say that once again his output was prodigious both in volume and in quality.

In this first introductory article Mr. Morrison provides a general outline of stock control, emphasising the importance of stock problems not only to financial management but to production, and to the national economy. In later articles, other authors will consider the special stock control problems of particular industries and the methods which are to be employed to solve them.

The Control of Material Stocks

By A. Morrison, F.C.W.A., M.P.O.A.

ACCORDING TO THE *Board of Trade Journal*, the total value of stocks held by manufacturers and distributors at the end of 1960 was of the order of £6,800 million (at 1954 prices), of which over £5,000 million was represented by stocks in the hands of industrial concerns. The latter amount consisted of:

	£ million
Materials (including fuel) ..	2,056
Work in Progress	1,741
Finished Products	1,288

Figures of this magnitude indicate that the effective control of stock is important not only for individual enterprises, but also for the national economy as a whole.

The purpose of this article is to examine the control of stocks of materials—the management of work in progress and finished product stocks is a separate problem.

The primary purpose of stock control is to provide a service to production or other operating functions by ensuring that materials of the proper quantity and quality are available when required.

The secondary purpose of stock control is to provide this service as cheaply as possible with regard to economy in working capital, purchase prices, ordering expenses, and storage costs.

The Effects of Failure of Supply

The user's desire is for immediate availability of all raw materials, components, spares and general stores which may be required at any time with no risk whatever of failure of supply. This implies an extensive stockholding, and from an operational point of view, that the efficiency of the stores service will be judged simply by whether material is or is not forthcoming when it is wanted. The importance to be attached to "run-outs" (i.e. no stock available) varies with the nature of the items concerned. Production materials are obviously the most important because failure of supply of a single item may not only stop completely the process immediately concerned, but can also disrupt assembly and halt the output of finished products. In such circumstances the loss incurred can be very substantial indeed and the risk must therefore be reduced to a minimum. In some cases it is possible to use an alternative material, usually more expensive, and if so, the loss will be less serious, but still probably appreciable. A similar situation applies to major plant and equipment spares, particularly in public utility or process industries. For a wide range of maintenance materials and general stores, however, the result of run-outs is merely an irritating delay without any appreciable financial effect, and therefore the avoidance of run-outs, although still important, is not vital.

The Need for Economy in Stockholdings

From a financial point of view the performance of stock control procedure is measured largely by the success achieved in reducing the value of the inventory in relation to turnover, and it is inevitable that some risk of shortages must be taken in the interests of economy. Apart from the question of actual availability of working capital, the annual costs of storage may be from £10 to £25 per £100 of stock carried. To maintain, for a year, an average stock figure of £100,000 will therefore cost at least £10,000, and probably more. The need for economy in this respect is obvious.

Purchase Discounts for Large Quantities

In some markets quantity discounts are not available, and in other cases there is a surcharge for small lots. Over a very wide field, however, unit prices are closely related to the amount purchased, discounts of 5 per cent. to 10 per cent. being common, and up to 40 per cent. not unusual. It is desirable to take advantage of price reductions of this kind as far as possible, even to the extent of carrying higher stocks where the amount of discount more than offsets the additional holding costs.

Combination of Factors

There is an element of conflict between the factors outlined above, and an adequate system of stock control must seek a reasonable compromise between these opposing forces, balancing the amount of money invested in stock, and the cost of holding it, against the losses

which may occur as a result of failure of supply, and at the same time taking advantage of purchasing discounts wherever practicable.

Assessing the Range of Items to be Held in Stock

The first step in deciding what shall be stocked is to identify all the raw materials, bought out parts, equipment, spares, tools, fixtures, gauges, and general stores which are used. To do this effectively, it is essential to have a Stores Coding System designed to suit the needs of the business concerned. This is one of the tools of stock control—not only does it serve to identify stores items and to simplify clerical work, but it provides a basis for standardisation, stock control accounts, and material costing.

Stock is held for the purpose of providing a reservoir of material to absorb the effects of variations in delivery and consumption, and to maintain the ready availability of supplies within the organisation concerned. It is normally found necessary to hold stocks of all materials which are regularly used and also of items which may be required at short notice in the event of plant breakdowns. Goods for which the demand is infrequent need not be stocked at all if they are readily available from manufacturers or stockists. In theory, if deliveries of materials from suppliers can be arranged exactly to meet operational demands from day to day, there is no need for stockholdings. In practice, however, this arrangement can be applied satisfactorily to maintenance materials and general stores which are not operationally vital and which are used at irregular intervals. It is not entirely suitable for important production materials because neither the supplier's delivery performance nor the stability of the rate of consumption is completely predictable. In some process and mass production industries a good deal is done in this direction by scheduling daily or weekly deliveries of raw materials and component parts to be taken straight on to the floor of the production shops in harmony with the output schedule, but this is manageable only within reasonable limits. Difficulties arise, of course, if there are stoppages for any reason, either in the main assembly factory, in the supplier's works, or in the transport system between them.

Particularly in utility undertakings, extractive industries, and continuous process units, it is necessary to hold maintenance spares for machinery and plant. Such spares may or may not be used regularly, and the stock to be held depends upon the technical importance of the part, and the time for supply from the makers. In the case of major items, the delivery time is frequently protracted, and standby spares such as electric motors, pumps, gears, and bearings may therefore have to be kept in the storehouse, more as an insurance against the loss of operational time than to support any known rate of consumption.

In a small firm, users may have personal knowledge of what is available from stock, especially if the range of stores carried is not extensive. In a big organisation, however, some routine method must be devised of informing production and other personnel what items are normally held. This can be done by preparing and distributing a General Stock List of all such items, arranged in accordance with the stores coding system in force. Users are thus able to see at a glance whether any material they require is available on demand from the storehouse, or whether it will be necessary to await delivery from outside suppliers.

One of the features of stock control which is well worth pursuing is the question of specification and standardisation. A specification is a description of an item, its dimensions, analysis, performance, or other relevant characteristics in sufficient detail to ensure that it will be suitable in all respects for the purpose for which it is intended. For efficient stock control, it is desirable to make use of standard specifications as much as possible because they ensure consistency in the quality of materials and enable the buyer to compare suppliers' price quotations more accurately. Standardisation of stores is the process of reducing the number of varieties stocked to a workable minimum. In the course of time, in any organisation unless active measures are taken to control variety, the lines of stock held will gradually increase, and there will be many instances where several items are of a very similar nature. An examination of the end uses of materials which have similar features will usually enable some reduction to be made in the types of goods or the range of sizes maintained. This not only simplifies the operation of stock control but, by increasing the demand for retained items, offers the expectation of better quantity discounts in purchasing.

Provisioning

Provisioning is the process of determining in advance requirements of materials, taking into consideration existing stocks, delivery times, and rates of consumption, and subsequently advising the Purchasing Department of the quantities to be ordered. This means that instead of waiting for demands to arise from users before goods are ordered, a separate organisation is set up to see that the purchasing programme for General Stock items is arranged so that there is an adequate flow of goods from suppliers to replace usage, and that all such items are available on demand.

The two major questions arising in any provisioning activity are when to order and how much to order, and in considering these questions account must be taken of probable requirements, availability of supplies, frequency of delivery, seasonal fluctuations, and standard ordering quantities.

It is always necessary to form some estimate of future consumption. Past performance is a very good guide but it can be no more than a guide, and the Stock Controller must see that he has as much reliable information as he can get about future changes in production levels or alterations in technique. Therefore, he needs regular and effective contact with all user departments. To regulate the input of materials effectively, the delivery period likely to be required by suppliers must be known. Here again, past performance gives an indication of what to expect, but the situation can change rapidly, and a good liaison with the Purchasing Office is essential to obtain

advice on the current state of the market and forecasts of future prospects regarding delivery times. The geographical location of the source of supply or the nature or bulk of the material affects the size and frequency of deliveries: daily deliveries are unlikely to be made from a distant source, and bulk materials normally dealt with in wagon loads are not available in small quantities at short intervals. In some businesses, production is related to harvest times or weather—for example, fruit canning or clothing manufacture—and the input of materials has to be arranged accordingly. Many articles are normally purchased in standard quantities—i.e. by the ton, the gross, the gallon, and so on. For example, small wood screws are available wholesale by the gross, and orders for less than a gross should not be placed, otherwise retail purchases will have to be made at high prices.

QUANTITY CONTROL

The fundamental point about the control of stock by quantity is that every item of stores receives individual attention. It follows that detailed information about each item is required, and this is provided by stock records giving adequate particulars of receipts, issues, and balances on hand.

In order to control by quantity, it is obviously necessary to establish the units of quantity concerned. These may be units of weight, liquid measure, length, number, or any other unit which is appropriate to a particular material. A Unit of Issue, being the smallest quantity normally issued from a storehouse, should be fixed for each item of stock held, and employed consistently in all receipt, issue, and recording procedures.

Stock Levels

The basic method of controlling stock by quantity requires fixing for each commodity of stock levels which are noted on the records, and subsequently used as a means of indicating when action is necessary. Various kinds of stock levels may be encountered in practice, but the fundamental controls are minimum, ordering, hastening, and maximum levels. It does not follow that all these are necessary or even desirable for every item, and they should be employed with discretion, because the fixing of too many levels makes the work unduly complicated.

The Minimum Stock Level is the amount, expressed in units of issue, below which the stock of any given commodity should not be allowed to fall. When the level is reached, it triggers off urgent action to bring forward delivery of the next order. In fixing a minimum, the main factor to be taken into account is the effect which a run-out of stock would have upon the flow of work or operations. For many items this effect is negligible, and it may be possible to have a minimum stock level of Nil; but in other cases the effect of a run-out might be to stop production entirely, and sufficient stock must be held as a minimum to avoid shortages, at least in normal supply conditions.

The Ordering Level is the point at which ordering action is indicated, the aim being to allow an order to be forwarded in time for material to be delivered before stock falls below the minimum. Two main factors are involved in deciding the ordering level—first, the anticipated rate of consumption, and second, the estimated time which will elapse between the raising of a provision demand and the actual availability of goods in store after receipt and inspection (i.e. the "lead time"). When the ordering level is reached for any item and before arrangements are finally made to buy a fresh supply, a check should be made to see if there are deliveries outstanding in respect of any existing order.

The Hastening Level is the level at which it is estimated that hastening action is necessary to request suppliers to make early delivery. It is fixed between the minimum and the ordering level.

The Maximum Level is the figure above which the stock should not be allowed to rise. Its purpose is to curb excess investment. Other points affecting this level are the possibility of items becoming obsolete as a result of operational changes, and the danger of deterioration in perishable commodities. When the level is reached, it is a signal to defer or cancel outstanding deliveries, if any.

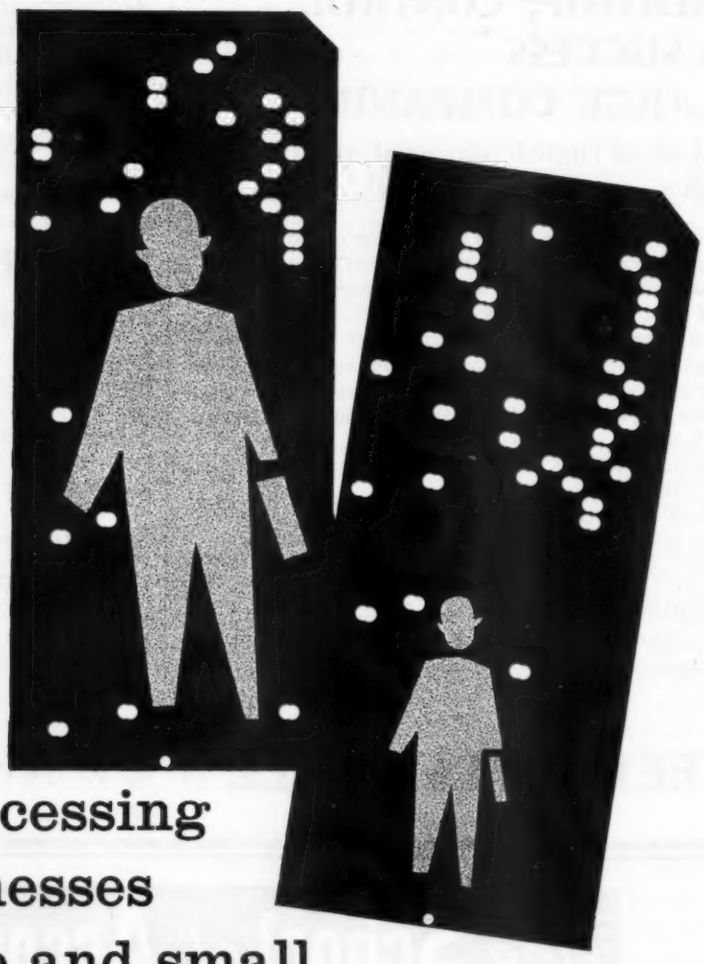
In order to keep abreast of changing conditions, after stock levels have been established in the first instance they should be reviewed at suitable intervals and adjusted to meet any changes in circumstances. Unless this is done, the levels originally fixed soon become out of date and the system of control is rendered ineffective.

Cyclical Provisioning

Under the stock level method of control, commodities are bought at unspecified intervals from day to day, as and when ordering levels are reached. Usually orders can only be placed for one item at a time and this may not produce the best purchase prices. Where a range of similar commodities can be bought together, the value of individual orders will be much greater and the possibility of lower prices more likely. To take advantage of this situation, cyclical provisioning may be introduced. This involves examining the stock records for a particular class of commodity at regular intervals and placing orders at one time for the entire range of items requiring replenishment. Where this method is employed, if there are unexpected variations in consumption, or if deliveries are seriously delayed, there may be danger of a run-out. On the other hand, if consumption unexpectedly declines suddenly or if deliveries are too far advanced, the amount of stock can become excessive. For these reasons, cyclical provisioning is usually supplemented by using maximum and minimum stock levels as an additional safeguard.

Programming Deliveries

In factories where there is a production schedule fixed for several months ahead, production material requirements are accurately determined well in advance. In such conditions it is often convenient and economical to place standing orders with suitable suppliers and to programme their deliveries of various materials or components at a given rate per day, per week, or per month. This gives the



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maximum certainty of delivery and simplifies the problem of provisioning. Again, in order to avoid unexpected fluctuations in stock, it is normal to apply maximum and minimum levels to the individual items.

Spares Scalings

In some enterprises there is a very large usage of transport or machinery spares. By a combination of experience and technical assessment the average number of parts of different types used for each machine can be fairly accurately established, and the quantity required to maintain any given number of machines over a specified period can be estimated. This is what is known as Spares Scaling. Not only does the number of each type of spare vary with the number of machines being maintained, but the range to be carried also depends on the same factor. Where very large numbers of machines are running it is normally desirable to hold the complete range, but where only a few machines are involved it is not necessary to keep some of the major expensive or slow moving items provided they are readily available from suppliers. Spares scalings are used not only for the purpose of controlling stock for existing installations, but also as a guide to determine in advance what range and quantity of spares should be purchased when new types of machines are introduced.

Ordering Quantities

The factors to be taken into account in respect of ordering quantities are as follows:

(i) Reliability of estimated requirements.
(ii) Available storage accommodation.
(iii) Cost of storage.
(iv) Cost of ordering.
(v) Discounts for large quantities.

For important commodities regularly consumed in large quantities, the estimation of forward demand is critical. Quite naturally, the longer the period for which an estimate is made, the less dependable the figure is likely to be—it is not too difficult to forecast what will be required for the next month, but to look ahead for a full year is seldom easy. Nevertheless, to obtain the best commercial terms, it is often essential to make fairly long-term contracts, and quantities representing a year's supply are commonly placed once a year. Where this is done, the rate of "call-off" is significant—it is desirable to see that the quantities delivered each week or month correspond as closely as possible to the rate of consumption.

Whatever the quantities ordered, deliveries must not be too great in amount to be accepted into the available storage accommodation. If this point is not watched, goods requiring covered storage may have to be kept in the open, or rent paid for warehousing facilities outside the organisation.

The cost of storage includes interest on capital represented by stocks, operating expenses of storehouses, insurance, deterioration and obsolescence. These costs are substantial and, as already stated, they may be of the order of £10 to £25 per annum per £100 of stock held.

The cost of ordering is the expense incurred in running the purchasing office and in clearing invoices. The average cost of placing one order varies according to the nature of the organisation but figures of between 10s. and £1 are not unusual.

The Acquisition Cost of an item is the sum of the cost of ordering and the cost of storage. To keep stock as low as possible, frequent orders for small quantities must be placed—this means that although storage costs will be low, ordering costs will be high. On the other hand, if large quantities are ordered at infrequent intervals, the ordering costs will be low, but the storage costs high.

It is apparent that the most sensible course to pursue is to find some Optimum Order Quantity which will produce the most economical combination of ordering and storage costs—that is to say, the minimum acquisition cost. The optimum ordering quantity can be ascertained by the use of the calculus, and several formulae have been produced by this method. The detailed mathematics involved are beyond the scope of this article, but the principle is simply to establish the point at which the sum of the ordering and storage costs is a minimum. One such formula is as follows:

$$Q=\sqrt{\frac{200\,Ax}{Y}}$$

Where Q=the value in £'s of the most economical order to place at a time
A=the value in £'s of annual consumption
x=the cost in £'s of placing one order
Y=the cost of storage expressed as a percentage of the value of the average stock

To apply a formula every time an order was placed for each individual item of stock held in the average business would be very laborious, and the normal practice is to prepare a table based on the formula showing the optimum ordering quantity for various values of consumption. This table can then be used as a "ready reckoner" for provisioning purposes.

The mathematical approach to optimum ordering quantities can be extended to cover the question of discounts and to indicate whether it is worth while to increase ordering quantities to attract lower prices per unit. Tables can also be prepared for this purpose to show in respect of various values of annual consumption:

(i) The normal optimum ordering quantity, and
(ii) The maximum ordering quantity which is worth placing for any given percentage reduction in price.

Formulae and tables of the kind mentioned above can produce very good results when used with discretion in appropriate circumstances, but their limitations must be recognised. The ordering cost and storage cost taken for any particular item can be no better than a rough estimate; the optimum quantities obtained from formulae or tables may not correspond with standard ordering quantities; consumption may change suddenly and unexpectedly; and prices do not always remain stable for any length of time.

High Value Items

It is important that the greatest attention should be paid to the items of the highest value, but this commonsense approach is sometimes overlooked. Very frequently a large proportion of the total value of stock is represented by a comparatively small number of expensive articles, or materials with a high rate of consumption, and the effect of fluctuations in these stockholdings is a major factor in the total stock investment.

VALUE CONTROL

The purpose of value control is to provide a means of verifying that detailed quantity control is operating effectively and also to produce information for financial purposes about the value of stock.

If stock is to be controlled in value it is necessary to define what stock values are intended to be held. The simplest method is to decide the total sum of money which it is proposed to provide in the form of working capital represented by stock. This total can then be split between the stores code classifications for materials, e.g. steel, timber, bought-out parts, general stores, etc. Some account must be taken of fluctuations in the value of consumption, and to do this, stock targets are best calculated not in exact sums of money, but by relation to the rate of turnover and expression as a number of weeks' or months' average consumption.

Stock Control Accounts

The framework of value control is provided by a series of memorandum stock control accounts. The form and method of operation of these accounts is subject to many variations to suit different enterprises, but all are designed to analyse the total stock value into various categories to facilitate control. An example is as follows:

(i) Main Stock Account.
(ii) Accounts for each individual storehouse.
(iii) Accounts for each classification of stock in each storehouse.
(iv) Stock record cards for each individual item in each classification. (The maximum degree of value control is provided if stock record cards show value as well as quantity balances.)

These accounts are used for control purposes in the following way:

(i) It will be obvious from the main stock account balance whether the total value of stock in hand is satisfactory or not.
(ii) If the total stock is too high, it is fairly easy to see from the periodic movements of balances on the storehouse control accounts which of the stockholding points shows an increase over the target figure.
(iii) Totals in the various classification control accounts for that storehouse can then be inspected to find out which classification has been responsible for the increase.
(iv) The source of the problem having been thus far established, reference can be made to the stock records to identify individual items, examine the quantity control levels, and take appropriate remedial action.

A similar procedure is followed where the value of stock is below what is considered to be satisfactory.

Commitment Records

It is evident that the value of goods on order has a bearing on whether stocks are likely to increase or decrease in the future: if the value of purchases is running at a rate in excess of current consumption, stocks will increase, and if the amount being bought is less than the value of usage, stocks will fall. For this reason it is advisable to have a record in some detail of the value of orders placed.

One of the complications encountered is that in order to produce this record it is necessary to ensure that all orders placed are evaluated, or, where this is not practicable in every case, that at least an estimate of value is available.

Commitment records can take either of two forms:

(i) A periodic evaluation of outstanding orders.
(ii) A running record of orders placed less deliveries made.

Whichever type of record is adopted, it is usual to split up the total value of orders into stores code classifications, and to compare the value of orders placed over a period in each classification with the corresponding value of consumption obtained from the classification stock control accounts.

RESPONSIBILITY FOR STOCK CONTROL

In practice, the responsibility for stock control varies greatly in different organisations according to their size and the nature of the operational activity, whether production or otherwise. In certain government departments there is a separate Provisioning Branch concentrating on this type of work alone; in some engineering factories the intake of production materials and components is organised by the Production Control, Planning, or Progress Departments. In many concerns stock control is undertaken by the Purchasing or Stores Department, and in small firms it may be the duty of the Storekeepers.

Several functions always have an interest in the efficiency of stock control. Operating Departments must have the materials and spares to meet their commitments, the Finance or Accounts Department is concerned with the allocation of funds and the management of the appropriate budgets, and the Purchasing Department requires freedom to arrange the buying programme to secure the best commercial results. Because of the extreme variations in individual circumstances it is difficult to generalise, but there is much to be said for appointing an independent Stock Controller with a separate organisation to keep the appropriate records and accept responsibility for all aspects of stock control in accordance with the policy approved by General Management.

[*To be continued*]

A condensed version of an address given to the Leeds, Bradford and District Society of Chartered Accountants on October 18, 1960

Recent Developments in Consequential Loss Insurance

By Denis Riley, F.C.I.I.

CERTAIN BASIC FEATURES of consequential loss insurance must be understood, and will be mentioned first, as necessary to an appreciation of recent developments.

In its simplest form consequential loss insurance is an indemnity for loss of gross profit due to interference with normal trading as the result of damage by fire, but the modern policy can insure much more than gross profit. It can also include other perils which are frequently added to a fire policy, such as explosion, aircraft, storm and flood, or the result of breakdown of plant and machinery insured under an engineering policy. The index generally adopted for measuring this loss is shortage in turnover, although output or some other alternative standard more convenient to a particular business may be adopted where appropriate. The object of the insurance is to place an insured's profit and loss account in the position at the year-end in which it would have been had the damage not occurred. To achieve this the insurance must cover *future* earnings, earnings which are hypothetical since they are subject to the influence of many external and often unpredictable factors. It is essential, therefore, to provide for adjustments in claim settlements for trends and special circumstances.

Provision for such adjustments is made in the policy by what is termed the "special circumstances clause," which is bracketed against the definitions of rate of gross profit, annual turnover and standard turnover.

The clause is exceedingly wide in scope, and is often regarded as the most important part of the policy. It reads:

> to which such adjustments shall be made as may be necessary to provide for the trend of the business and for variations in or special circumstances affecting the business either before or after the damage or which would have affected the business had the damage not occurred, so that the figures thus adjusted shall represent as nearly as may be reasonably practicable the results which but for the damage would have been obtained during the relative period after the damage.

Because the earnings of most businesses are constantly increasing, the special circumstances clause is very frequently invoked in claim settlements to provide for an upward trend or some special circumstance which would, but for the fire, have benefited the business. For this reason it is most important always to arrange a sum insured on gross profit that gives an adequate margin over the preceding year's results, to cater for the earnings that might be anticipated in the future. This will generally mean looking at least two years ahead, because if the revision is made annually and a fire occurs, say, eleven months later, the indemnity will commence from the latter date and operate for the following months on the basis of the gross profit which the business might have been earning during that period. Such forward estimating is facilitated by the inclusion in the policy of a rebate clause which provides for a proportionate refund of premium to be made after the end of each financial year if the gross profit earned is less than the sum insured. As the only limit to the refund is that it shall not exceed half the amount of premium paid, it allows a margin of 100 per cent. excess cover to be carried without loss.

Another very important feature in all policies of consequential loss insurance is the "average" proviso, whereby, unless the insurance is a full one, in the event of a claim arising the insured will recover only a proportionate part of the loss, whether this be of small or large amount and notwithstanding that the amount claimed may be less than the actual sum insured. Although accountants know this, it is perhaps proper to draw attention to the fact that if the turnover and other figures supplied for a claim are adjusted for a trend of business or other special circumstance, then similar adjustments are made in the application of the average proviso. This means that much of the benefit of an upward adjustment in figures for a claim will be lost if the sum insured has not been arranged and maintained at an amount adequate to cover the increased level of earnings anticipated and put forward as the basis of the claim.

Unfortunately there are many cases on record in which the sum insured on gross profit had been revised at the end of each financial year to correspond with the amount extracted from the accounts by the auditor, without

anything extra being added for the trend of business. After a serious fire the loss adjuster has perhaps agreed to a request for a substantial uplift in the standard turnover figure because the business was increasing, but carrying this through to the average proviso has resulted in the insured losing much of the benefit, whereas had the sum insured been adequate to provide for the upward trend then the full amount of the claim would have been recovered.

Additional Expenditure

Another important feature of the policy is the automatic provision, under the sub-heading increase in cost of working, for reimbursement of the insured for additional expenditure necessarily and reasonably incurred to minimise the interruption of the business. It is essential, if a full indemnity is to be obtained under this section of the cover, for which nothing has to be added to the sum insured on gross profit, that the latter should be adequate on the basis of prospective future earnings. If the sum insured on gross profit be less than it should be, the average proviso will operate to reduce the amount claimed for increase in cost of working, and this is of importance because in most claims a substantial amount is paid in respect of additional expenditure in connection with steps taken to restore turnover as quickly as possible. Frequently the amount exceeds that paid for actual loss of gross profit due to shortage in turnover, sometimes running into hundreds of thousands of pounds. The payment of the additional part of overtime wages, either to the insured's employees to try to make good the loss of production or to builders' or other tradesmen's workers to speed up the restoration of the damaged property and plant, is a regular feature of claims. Other typical examples are the cost of having provisional repairs effected to buildings or plant, of temporary roofing or flooring, or of the installation of heating, lighting or power arrangements of a provisional nature, which subsequently have to be scrapped. It is sometimes possible to promote some turnover by having work done on commission or by having components, or even finished products, made by other firms, thus incurring an increase in productive costs which can be claimed under this clause. The occupation of temporary premises generally entails additional expenditure on rent and rates and other overheads which may continue for a prolonged period. Sometimes it is necessary to purchase premises or buy out another business, purely as a temporary measure, with a subsequent loss on resale when the insured's permanent premises are again ready for occupation. Heavy advertising expenditure may be necessary for a considerable period in order to regain lost custom.

The last of the more important features of a consequential loss policy to be kept in mind in relation to recent developments is that the insurance applies only to loss resulting from damage at the insured's own premises. If damage at the premises of some other concern would adversely affect the insured's trading, the necessary cover must be specially arranged as an extension to the policy.

Definition of Gross Profit

Turning now to recent developments, it must always be kept in mind that in an insurance against loss of gross profit the gross profit covered is seldom identical with that shown in the accounts, and is always specifically defined in the policy. The traditional method is to describe it as the amount of the net trading profit before taxation, together with the "insured standing charges." Because there is no definition in the policy of what constitutes a standing charge, it is necessary to extract from the accounts a list of the items to be insured as standing charges and to name them in the policy. To do this means visualising, for each individual business, the possible effects of either partial or total destruction of the premises, plant and stock, and insuring any charge in the accounts which might not diminish proportionately with a reduction in turnover if there were partial or total interference with the business, and any variable charge which in the interests of the business it would be desirable to continue at normal level.

Because a consequential loss policy undertakes to pay an indemnity for the loss of hypothetical future earnings, and there can be a diversity of opinions on how to arrive at this in any particular instance, the policy incorporates a formula for the calculation of a claim and includes definitions of various expressions such as gross profit. Over the years attempts have been made to simplify the definition of gross profit so as to avoid having a long list of insured standing charges shown on the policy. One method, popular in some quarters, is to avoid naming the insured standing charges individually by using the phrase "*all* the standing charges of the business." Whilst this might be suitable for small shops and similar businesses, the absence of any indication of the meaning of standing charge is very frequently a source of difficulty for accountants when preparing a certificate for premium rebate purposes, and particularly so in connection with a claim. Another simplified definition, again suitable for small insurances only, is to describe the insured standing charges as being "all charges in the trading and profit and loss accounts except . . .," filling in any variable charge which is not to be insured.

A more recent development towards simplification whilst retaining exactness in the definition of gross profit has been the introduction of what is referred to as the "difference" wording. This is rapidly becoming popular with accountants and insurance brokers and may ultimately replace the traditional "net profit and standing charges" definition. In it gross profit is defined as:

the amount by which

(1) the sum of the turnover and the amount of the closing stock

shall exceed

(2) the sum of the amount of the opening stock and the specified working expenses.

The "specified working expenses" are then listed. They are those variable charges which are to be excluded from the cover. The older method of building up from the net profit by adding back the standing charges is thus reversed.

Generally the specified working expenses are shown as being: purchases; part or all of the wages; carriage and freight; packing materials; discounts allowed; bad debts. Other charges may be added to the list where appropriate if they are strictly variable with turnover.

The charges in the accounts which are originally to be included in the insurance, and the amount of the gross profit, will be the same whichever definition and method of computing the gross profit is used. But because the object of the insurance is to compensate for loss of turnover, it seems logical to make that the basis of the sum insured after deduction of the charges which will vary with changes in turnover. The "difference" wording does this, and in doing so tends towards clarity of thought in arranging the cover and some simplification in expressing it, and thus is more likely to produce an adequate insurance than the method of insuring selected standing charges along with the net profit. It will also include without notification to the insurance company any new charge, as for instance a pension scheme premium or an interest payment, which comes into the accounts after the issue of the policy. It is easier to calculate the amount to be insured on gross profit because the list of excluded charges is invariably shorter than would be the list of insured standing charges, but a point to be watched is that the definition might not include discounts received and possibly some other trading revenue if this is credited in the second part of an insured's accounts. To make certain that they are not omitted it is usual to mention them by qualifying "purchases" with the addition of the words "less discounts received."

Another practical benefit of this form of wording which will appeal to accountants is that it provides automatically for non-recurring charges, such as heavy expenditure on a special advertising campaign, or architects' or legal fees of an exceptional nature. Under the traditional method, such non-recurring items would not appear in the list of insured standing charges, and the necessity of arranging the future sum insured at an adequate figure to include their amount, because the net profit would be increased by it in the following year, might easily be overlooked.

Similarly, the "difference" wording obviates adjustments to the net profit figure, which would have to be made under the traditional method, to provide for the deduction from that figure of non-trading revenue such as interest or dividends on invested money and other extraneous income which would not be affected by an interruption of the business.

Wages—The Dual Basis Scheme

Turning from the insurance of gross profit to that of wages, the traditional method was to include the wages of key workers and indirect wages in general as a standing charge in the item on gross profit, whilst the direct or productive wages would be dealt with by a separate item insuring one or more week's wages to enable the employer to pay that amount in lieu of notice. But a new situation developed with the post-war era of full employment, in which firms could not afford to stand down employees after a fire because they would not be able to get them back again when ready to re-employ them. The pattern of insurance altered to reflect the relative indispensability of workpeople, and it became customary to include in the gross profit insurance a larger proportion of the total wage roll without limiting the categories of employees included, but defining the cover either as all wages, or a percentage of the total wage roll, or a stated amount of wages per annum. The tendency grew to extend also the period for which the balance of wages, if any, was insured under a separate item; the period generally adopted was either four or eight weeks, but frequently it was as long as twenty-six weeks.

Experience following fires proved that this method was not entirely satisfactory. Because the effects of damage upon production and turnover are unpredictable and vary not only with the nature and severity of the fire but also with local employment conditions and many other factors, the division of the insurance on wages into two watertight compartments made it difficult to estimate the cover in advance without running the risk of inadequacy when the need to claim arose. To overcome the shortcomings and the rather inflexible nature of the existing method of wages insurance, a new formula called the "dual basis scheme" was introduced in 1952 and was considerably improved in 1957. This was a definite step forward, though not necessarily a final one, towards simplicity in method and elasticity in the operation of the cover in the interests of insured. It has since become the almost universal practice, and when losses have been settled under its terms it has repeatedly proved its merit in meeting the pattern, unpredictable in advance, of wages requirements following damage by fire or kindred perils.

Under the dual basis scheme wages are removed from the gross profit item and the total wage roll is insured entirely separately under a single item. The insurance then operates in a manner parallel to that on gross profit. That is to say, the indemnity period is the same length, the yardstick of loss is shortage in turnover, and provision is made for the payment of increase in cost of working.

The item takes its name from the fact that it provides an indemnity for loss due to the payment of wages during two separate periods following damage. The first of these is an initial period beginning with the occurrence of the damage and ending not later than a selected number of weeks thereafter. The minimum for this period is four weeks, and cover is provided throughout it for the full wage roll. At the end of the initial period cover continues throughout the remainder of the indemnity period, that is, up to an overall total of twelve months (or longer if the gross profit is insured for a longer period) but for a reduced proportion of the wage roll. This proportion is limited to a percentage which is selected when the insurance is arranged and corresponds roughly to the wages which would under the older method have been insured as a standing charge in the gross profit item. Where the indemnity period is twelve months, which is the minimum under this scheme, the sum insured is the estimated future annual wage roll, but where the in-

demnity period exceeds twelve months the sum insured must be a correspondingly extended amount in the same way as applies with the insurance on gross profit, because an average proviso operates on similar lines. In recognition of the fact that the insurer's liability is limited to a percentage of the wages for a substantial part of the indemnity period, a lower rate of premium is charged than for the insurance on gross profit.

The premium cost for cover under the dual basis scheme is, in fact, the same as it would be for corresponding insurance with the wages divided into two items in the older method, but substantial benefits are included called the "carry-over clause" and the "option to consolidate." The former provides that if the insured dismisses employees or any leave of their own volition, owing to the damage, the saving in wages during the initial period of full cover is carried forward to be utilised during the period of partial wages insurance. This may have the effect either of increasing the amount of that partial cover so as to retain more employees than had been allowed for when the insurance was negotiated, or of providing for the time towards the end of a period of interruption when new workers are being trained or when a full labour force is being built up but there is not yet a full resumption of normal activities to meet the wages bill.

Under the "option to consolidate" an even more useful benefit is given, whereby the partial wages insurance of the later months can be condensed so as to lengthen the initial period during which full wages cover is available. The number of weeks in this option, which is stated on the policy, depends upon the combination of cover which the insured has selected, that is, on the length of the initial period and the proportion of the wage roll covered during the subsequent period. As an example: on a wages insurance of 100 per cent. for the first four weeks and 25 per cent. for the remainder of an indemnity period of twelve months the option to consolidate would be 100 per cent. for ten weeks, and nothing thereafter except the carry-forward of the amount of any savings in wages during the initial ten weeks. This option would be very useful in the case of an interruption of work which was serious in degree and, though limited in duration, extended beyond the initial period of four weeks' insurance to, say, six or seven weeks. The insured would not wish to pay full wages to employees for four weeks and then lose the value of doing so by dismissing them, because the insurance cover had run out, when it would be wanting them back again in another two or three weeks' time. On the other hand, if the option to consolidate was exercised the carry-over clause would still be effective and, if in the particular circumstances of a case it turned out subsequently that full wages cover was required for less than ten weeks and some partial contribution towards wages was wanted later on, then any savings in wages during the initial ten weeks could be utilised to provide partial cover in the subsequent part of the indemnity period.

By these means a pool of wages insurance is created with a very wide degree of flexibility available in its application, the insured being placed in the privileged position of not having to make a final decision on how to utilise the cover until actual events have shown the most useful way of doing so.

A recent case will illustrate the substantial benefit which can be obtained which would not have been available under the older method of insuring wages. An engineering company carried a wages insurance of 100 per cent. for eight weeks and 50 per cent. for the remainder of an indemnity period of twenty-four months, the corresponding option being 100 per cent. for fifty-four weeks. Following a serious fire it decided, because of the labour shortage in the locality, to retain all employees on full pay despite a serious dislocation of business which lasted for forty-five weeks. The loss due to the payment of full wages to employees doing less than a fully economic day's work each day throughout the period amounted to £245,882, which was recovered under the option to consolidate. Without that option the company would have obtained only £144,787.

A further valuable benefit incorporated in the insurance of wages under the dual basis scheme is related to the provision under the item on gross profit for payment of any increase in cost of working incurred to minimise the reduction in turnover. There are three ways in which full recovery for such additional expenditure might not be obtained under the gross profit item. Firstly, if all the standing charges of the business have not been included in the cover; secondly, if the amount expended exceeds the amount of the loss of gross profit which would otherwise have arisen; and thirdly, if there is under-insurance and the average proviso operates. There is a provision in the wording of the dual basis wages insurance to pick up the loss under any of those three possible causes of only partial recovery of increase in cost of working. Many instances could be cited in which, from one cause or another, less than a full recovery has been made for additional expenditure incurred under the item insuring against loss of gross profit and the shortage, often amounting to thousands of pounds, has been picked up by the provisions of the dual basis wages item.

"Other People's Fires"

Reference has already been made to the limitation of a consequential loss insurance to loss resulting from damage at the insured's own premises and the possibility of extending the cover to include loss of trade due to damage at the premises of other concerns. The need for such cover and the practice of arranging it has greatly increased of recent years with the growing dependency of businesses upon one another owing to specialisation and integration in modern industry. Unfortunately we have all too frequent illustrations of such inter-dependency in the effects of strikes in the motor industry.When a stoppage in one department or factory holds up the supply of certain components or accessories or process work, almost within a day or so it brings a much greater unit of production to a standstill. Whilst the effects of an industrial strike cannot be insured against, those consequent upon damage by fire or kindred perils, which can be much more prolonged in duration and financially

disastrous, can be insured under an appropriate extension to a firm's consequential loss policy.

The possible effects of a fire were clearly shown in 1959 when damage occurred at the works of a company making steel motor bodies. Cessation of production as a result of the fire immediately affected its customer, the manufacturer of a well known make of cars, whose production of new vehicles was reduced quite substantially. The loss did not finish there, for the effect passed on to the various motor dealers who had agencies for that make of car and lost sales because their allocation of new cars was not coming through.

In this case the motor manufacturer's consequential loss policy carried what is called a "suppliers' extension," as is customary with concerns in that industry, which covered the loss in respect of gross profit and wages. But at that time there was no provision for the motor dealers' losses because in their case a suppliers' extension cover was insufficient, the fire occurring not at a supplier's premises but at those of a supplier of suppliers. After this occurrence, requests from motor dealers for appropriate cover led insurance companies to introduce a new scheme which now enables motor dealers to extend their consequential loss insurances to include loss due to damage at the premises of named motor manufacturers or any supplier of materials or components to such manufacturers, these latter suppliers not being specified by name.

An illustration of the effects in reverse of the fire at the component maker's premises took place later in the same year. A motor manufacturing company, because of a fire at one of its factories, suffered an interruption of production for a period of about five weeks. This meant that concerns which supplied components had their orders curtailed for that period. Those which had taken the precaution of having their consequential loss policies extended to include loss due to fires at customers' premises were able to recover their loss in respect of gross profit and wages. One such concern was paid over £200,000 by insurance companies under a "customers' extension" on its policy. At the same time motor dealers throughout the country were affected by the shortage in their deliveries of new cars, and the prudent ones, whose consequential loss policies had previously been extended to cover such a contingency, were paid sums varying from hundreds to, in some cases, thousands of pounds.

This reciprocal dependency within industry and the availability of insurance against consequential loss due to "other people's fires" is a modern development of growing importance. It applies not only to the motor industry but also to a large extent throughout the printing and packaging trades. The growth of the sale of prepackaged goods in self-service shops and supermarkets, and the resulting manufacture of attractive containers of all kinds with sales appeal, has increased the extent of the mutual dependence between the manufacturers of containers and the makers of the commodities which are put into them. On the one hand, the concern using specially produced containers for its products will be open to a serious interference with its sales if the maker or printer of the cartons, tins, bottles, jars, pressurised dispensers or whatever they may be is out of production because of a fire. Owing to the individual nature and design of so many kinds of containers, involving special machinery and processes for their manufacture, an alternative source of supply might not be available for a long time after a fire at a factory, and the effects would be particularly harmful if the damage occurred at a time of seasonal build-up or heavy delivery of stocks for such a period as Christmas.

Some concerns try to meet this contingency by carrying large reserve stocks of containers, but this is much more costly than arranging an extension of a consequential loss policy to include a "suppliers' extension."

Conversely, the manufacturer of containers, wrapping materials and the like will suffer a serious loss if a factory of one of his important customers is destroyed, for in a highly competitive industry it is difficult to break into well established connections to obtain large new customers.

Publishers of periodicals, journals, books, trade directories, brochures and so forth who do not actually print their own publications are another class of business concerns liable to suffer a serious loss of turnover in consequence of damage at the premises of some other concern. They are dependent upon block makers for illustrations, upon printers and binders for production of their publications, and sometimes upon a single paper manufacturer when special qualities of paper are used. In this category might also be included travel agents, mail order and Christmas club proprietors, bulb merchants and seedsmen and similar businesses which depend very largely for their trade upon illustrated brochures or catalogues. When the business is a seasonal one failure to issue their literature at the appropriate time might result in the loss of a very substantial part of a year's revenue.

In the textile and other industries where there is specialisation in different stages of production and dependency between, for instance, spinners and weavers where special types of yarn are used, the possibility of consequential loss often arises from this supplier-customer relationship and, when it does, the advisability of an appropriate extension of cover under their consequential loss insurance should always be given careful consideration. Over recent years there have been many examples of a serious fire in one mill causing interruption of another firm's production because of their interdependency, and similarly with fires at the premises of firms of processors such as dyers and finishers.

Accountants' Responsibility

An increasing part is being played by accountants in the arrangement of consequential loss insurances, which involves a responsibility to ensure that not only are the pitfalls peculiar to such insurances avoided but full advantage is taken of up-to-date facilities for adequate protection.

The Securities and Exchange Commission—II*

By J. F. Shearer, O.B.E., F.C.A.

Independent Public Accountants

In the U.S.A. annual reports of companies to their stockholders do not have to be approved by the stockholders in general meeting as is the case in the U.K.

Apart from S.E.C. requirements there is no federal requirement for the certification by independent public accountants of the financial statements of companies. But the New York Stock Exchange, the American Stock Exchange, certain other national securities exchanges and the "blue sky" laws of certain states require this to be done.

There is no law or S.E.C. requirement (except in the case of investment companies) that U.S.A. companies should submit to stockholders the election of auditors or the ratification of auditors selected by management. Nevertheless many companies do so. In the U.K. (except in the case of casual vacancies) the appointment of auditors is formally made or ratified by the company in general meeting, although the nomination usually is put forward by management.

Independent public accountants who certify statements to be filed with the S.E.C. are not required by the S.E.C. to be Certified Public Accountants. Financial statements certified by foreign accountants are acceptable, provided the foreign accountants are (*a*) independent and (*b*) of good standing and entitled to practise as public accountants under the laws of their place of residence or principal office.

Generally accepted auditing standards applicable in the circumstances must be followed throughout the periods covered by the statements certified. Independent public accountants cannot normally lessen their responsibility by saying that they have not carried out procedures which are standard practice. But where it is impracticable to carry out such procedures, as in the case of direct confirmation of accounts receivable from the United States government, the certificate should state the fact that the procedures have not been carried out and the reasons why, and whether alternative procedures have been satisfactorily adopted.

Where independent public accountants certify income statements or a summary of earnings, they must examine the whole period covered by such statements in accordance with generally accepted auditing standards. This conforms to U.K. practice.

When independent public accountants are required to certify a company's financial statements to the S.E.C. and were not in office throughout the relevant period, inventory observations and confirmation of receivables by them will probably have been practicable only at the last balance sheet date. Provided the accountants have been able to satisfy themselves by other means as to the correctness of the inventory and receivables at the earlier balance sheet dates within the relevant period, there is no reason to qualify their certificate. This conforms to U.K. practice.

The form of report to be given by the accountants varies according to the circumstances, but essentially is based on the standard short-form audit report recommended by the American Institute of Certified Public Accountants, which normally states that:

(*a*) the auditor's examination was made in accordance with "generally accepted auditing standards" and accordingly included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;
(*b*) the accounts represent fairly the financial position at the relevant date and the results of the operations for the period then ended, in conformity with "generally accepted accounting principles" consistently applied.

The following special matters must be referred to, if applicable, in a certificate for S.E.C. purposes:

(*a*) the nature of any material differences between the accounting principles and practices followed in the financial statements and those followed in the accounting records. As far as prospectuses or advertised statements are concerned, this conforms to U.K. practice;
(*b*) when part of the examination is made by other accountants, the principal accountants must either assume responsibility for the work done by the other accountants or disclose in their certificate the fact that they have relied on other accountants. This conforms to U.K. practice;
(*c*) when some of the period under review has been covered by other accountants. This would not normally apply in the U.K.;
(*d*) when the company has not kept proper books of account. In the U.K. the auditor has to say specifically in his report on annual accounts whether proper books of account have been kept. In a prospectus or advertised statement in the U.K. there is no corresponding requirement;
(*e*) when the accounting principles adopted for one year are inconsistent with those of the previous year, the certificate must indicate the facts, and a positive statement must be made whether or not the new principle meets with the approval of the independent public accountants. In annual accounts in the U.K., such disclosure may be given adequately by way of notes to the accounts, which thus become part of the accounts to which the audit report refers, and it

* The first part of this article, dealing with the Securities and Exchange Commission in the United States, was published in ACCOUNTANCY for April (pages 199–204). This month Mr. Shearer completes the examination of American practice, shows the comparable position in the United Kingdom and summarises the real difference in practice.

is not normal for approval to be specifically mentioned in the audit report. In a prospectus or advertised statement in the U.K., the accountants' report would indicate the facts. If the auditors disapproved, it would mean a qualification in the case of annual accounts. In a prospectus or advertised statement the accountants include the financial statements as part of their report, and the question of disapproval would not arise, as the necessary adjustments would be made;

(*f*) when the independent public accountants have been unable to verify certain representations or explanations of management in the financial statements or disagree with the representations or with the accounting principles adopted. In such cases the S.E.C. often requires the company to amend the financial statements. In the U.K. this would result in a qualification in the audit report on the annual accounts; in a prospectus or advertised statement the accountants include the financial statements as part of their report and there would not be disagreement with the accounting principles, as the necessary adjustments would be made. There could, however, be a question of lack of verification, in which case the accountants would state the facts in their report;

(*g*) if the independent public accountants did not observe the inventory taking and were unable by alternative means to satisfy themselves as to the correctness of the inventory, which was material in value, they would probably have to deny an overall opinion and limit their opinion to the parts of the balance sheet and income and surplus statements not affected by the inventories. The S.E.C.'s usual view is that such an opinion does not constitute a certificate and that such financial statements should be regarded as uncertified.

The date of the independent accountants' certificate should be the date when the examination is completed, and not the date of signing as in the U.K. In the U.K., in the case of prospectuses and advertised statements, the difference in dates is normally of little consequence.

The S.E.C. may relax its requirements, in the case of foreign subsidiaries of American companies or of foreign companies registering with it, on the following lines:

(*a*) inventory observation may be dispensed with if it is not mandatory under the practice of the country concerned;

(*b*) accounting principles may be followed (for example, as regards depreciation), which are not in accordance with U.S.A. generally accepted accounting principles, if they are in accordance with practice or required by the laws of the country concerned. Full disclosure must, however, be made in the financial statements of the effect on earnings.

Great emphasis is placed on the independence of the independent public accountants. But there is some difference between the views of the accounting profession and of the S.E.C. on the definition of independence, the S.E.C. being more restrictive than the profession. Broadly, the profession takes the view that independence is a state of mind, while the S.E.C. proscribes certain specific relationships between the accountants and their client on the grounds that they give rise to a presumption of lack of independence.

Practice in the U.K. is in accordance with the views of the profession in the U.S.A., and not with those of the S.E.C.

The S.E.C.'s formal requirements as to independent public accountants are contained in Rule 2—01 of Regulation S-X, and have been amplified by a number of rulings. In summary:

(*a*) no financial interest of any kind, other than the normal fee relationship between accountant and client, can be held directly or indirectly in a client or in the affiliate of any client, by a partner in the independent public accountants, or by a close relative;

(*b*) no partner or staff of the independent public accountants can take any part in the management of the client or of its affiliates. The independent public accountants cannot keep the company's records or any part of them, even on a temporary basis;

(*c*) custody of a client's assets is prohibited;

(*d*) independence may be prejudiced when the client has office accommodation in the independent public accountants' offices;

(*e*) family or business relationships between partners in the independent public accountants and officers or substantial stockholders of a client may prejudice independence;

(*f*) any indemnity agreement between the independent public accountants and the client is prohibited;

(*g*) contingent fees are prohibited, not only by the S.E.C. but also by the American Institute of Certified Public Accountants;

(*h*) the independent public accountants must have opinions of their own and must not subordinate these to the desires of their client.

The S.E.C. acknowledges that its rulings on independence are quite different from the concept of independence in foreign countries, and it may therefore be prepared in the case of foreign companies to accept some relaxation of these rigid rulings.

The S.E.C. has disciplinary power to disqualify, temporarily or permanently, accountants from practising before it (which includes giving a certificate to be filed with it), and sends reports of its findings to the accounting societies for disciplinary action.

UNITED KINGDOM

Annual Accounts

The form and content of the annual accounts of all companies (other than statutory undertakings) are governed by:

(*a*) the statutory requirements of the Companies Act, 1948, which are mandatory;

(*b*) the recommendations of the various bodies of accountants, particularly those of The Institute of Chartered Accountants in England and Wales. These recommendations have no statutory backing, but carry great weight as representations of professional opinion, although whether or not they should be adhered to in particular instances rests entirely with the company concerned and the auditors.

The Stock Exchange, London, and the provincial stock exchanges do not lay down any separate requirements for the form and contents of annual accounts.

The annual accounts of all companies (except exempt private companies) are filed with the Registrar of Companies (a government department) so that they are available for inspection by any member of the public. The annual accounts of companies listed on a recognised stock

exchange are also filed with that stock exchange in order to give information to the members of that stock exchange. Neither the Registrar of Companies nor the stock exchange takes any responsibility for the form and contents of these accounts, nor do they require any additional accounting information (except that the Registrar of Companies requires in an annual return certain information relating to the share capital and secured indebtedness of the company).

New Issues and Sales of Securities to the Public and Quotations

The issue of circulars containing any invitation to acquire or subscribe for securities is statutorily controlled by the Prevention of Fraud (Investments) Act, 1958. Broadly, this restricts the public circulation of such invitations in respect of all commercial companies to:

(*a*) prospectuses for new issues of securities, which must be filed with the Registrar of Companies for information purposes, containing the information specified in the 4th Schedule of the Companies Act, 1948, unless the issue is a restricted one;
(*b*) information given with respect to existing securities by a member of a recognised stock exchange;
(*c*) documents specifically approved by the Board of Trade.

Where the securities of a company are to be quoted on a recognised stock exchange:

(*a*) if it is a new issue—a full prospectus must be published (unless the issue is a restricted issue) complying with the requirements of the Companies Act, 1948, and also complying with any additional requirements of that stock exchange. Copies of the prospectus are filed with the stock exchange as well as with the Registrar of Companies;
(*b*) if they are existing securities—information must be given to the members of the stock exchange, but there are no statutory requirements under the Companies Act, 1948. Consequently the information required is that specified by the stock exchange. In the case of:
(i) companies which already have securities listed—the information required is only that required to bring up to date the existing information available to the stock exchange;
(ii) companies which are being listed for the first time—full information is required (usually referred to as an advertised statement) which is broadly equivalent to, but in some respects additional to, that required by the Companies Act in the case of a prospectus for a new issue.

There are nineteen recognised provincial stock exchanges in the United Kingdom together with a number of other exchanges or markets, but the primary stock exchange is The Stock Exchange, London, which administers its requirements in respect of new issues and quotations through its Share and Loan Department.

The Stock Exchange, London

The staff of the Share and Loan Department are specialists in the presentation of the information required for prospectuses and advertised statements, but do not purport to be experts in accounting, law, engineering or other technical subjects. The Share and Loan Department does not lay down accounting principles, but relies on the principles set out by the Companies Act, 1948, and the recommendations of the Institutes of Chartered Accountants.

The first draft of any prospectus or advertised statement to be issued in respect of securities to be dealt in on the Stock Exchange, London, is prepared by the consulting lawyers or the issuing house, either upon the basis of a long-form investigation report made by the independent accountants or upon the basis of information supplied by the company itself. After the preparation of the first draft, a number of meetings are held at which successive drafts are considered and discussed by representatives of the company, the lawyers, the independent accountants, the issuing house, and the sponsoring brokers. These meetings result in a final draft, which is submitted through the brokers to the Share and Loan Department for approval at least fourteen days prior to publication.

The Department will usually return its comments, marked informally on the draft, within two or three days, and such comments will cover the whole of the document including the financial information. Any amendments required can usually be dealt with immediately, and the final document approved by the Share and Loan Department within two or three further days.

The Share and Loan Department deals expeditiously with all submissions to it—a week should suffice from presentation of the final draft to final approval. Normally the preparation of the basic information and of the draft prospectus or advertised statement should be done within six to eight weeks. In total, three months should suffice from inception to publication.

There is no regular procedure for consultation with the Share and Loan Department by the independent accountants, by the lawyers, or by the company, but the Department is very willing to see the accountants or the lawyers at any time to discuss any points of difficulty. In practice, most applications for quotations are dealt with by accountants and lawyers who specialise in such work and who are well known to the Department. Prior consultation is a rare occurrence, for any points of difficulty can usually be resolved between the accountants, the lawyers, the issuing house, the brokers and the company before the draft reaches the Department.

All prospectuses (other than restricted issues) or advertised statements in respect of securities to be dealt in on the Stock Exchange, London, are required to be published in full in two leading newspapers, one of which is invariably a London daily, and to be circulated to the members of the Stock Exchange by the statistical services of the Exchange Telegraph Co. Ltd. and Moodys Services Ltd. Accordingly, the prospectus or advertised statement is presented in final draft and in final form as a proof of the newspaper advertisement.

Financial Statements for a Prospectus or Advertised Statement for New Quotations

The financial information required in a prospectus or advertised statement for a new quotation is of two kinds:

(*a*) financial statements up to the last accounting date;
(*b*) the current financial and trading prospects of the com-

pany together with any material information which may be relevant thereto.

In the U.K. the annual accounts are the representations of management upon which the independent accountants give their opinion. But in a prospectus or an advertised statement, the onus is placed specifically upon the independent accountants, by the Companies Act, 1948, and by the requirements of the Stock Exchange, London, to present financial statements up to the last accounting date in the body of their report, as a question of fact.

The financial statements required consist of:

(*a*) a statement of consolidated adjusted profits before tax for the five or ten years, as appropriate, preceding the last accounting date. There is no requirement to give the profit after tax, and this is not usually done. It is good practice wherever practicable to show one figure of profit for each year, without complicating the statement with details of the component items. Sales and cost of sales are not given;
(*b*) a statement of unconsolidated and of consolidated net assets at the last accounting date;
(*c*) information regarding new subsidiaries.

The only supporting information to the financial statements which is required under the Companies Act, 1948, and by the Department is:

(*a*) a statement by the independent accountants of the adjustments which they have made to the profit figures already published for the ten or five year period, in arriving at the profit figures given in their report;
(*b*) a similar statement by the independent accountants of adjustments to net assets at the last balance sheet date;
(*c*) a letter from the independent accountants to the Department confirming certain specific points, such as whether stock has been properly taken and valued and whether depreciation is adequate, if they are not apparent from the narrative of the prospectus or advertised statement.

The financial and trading prospects of the company are dealt with in the narrative of the prospectus and are not reported upon by the independent accountants. But they have an overall responsibility for the prospectus, so that the fact that they have consented to the issue of the prospectus or advertised statement is evidence that they have agreed to the information given. In fact, this is one of the primary matters upon which the independent accountants are called upon to advise the company. It is usual for a conservative estimate to be given, subject to unforeseen circumstances, of the level of profits for the current year, based on the information available since the last accounting date, and of the expected dividend for that period and for a reference to be made, if appropriate, to any anticipated recession in subsequent years.

In the first part of this article there was set out certain work which independent accountants must do when examining financial data for the S.E.C. In relation to a prospectus or advertised statement in the U.K.:

(*a*) the independent accountants examine the whole of the prospectus or advertised statement;
(*b*) the underwriting agreement is usually confined to the terms of issue and is not normally the subject of advice by the independent accountants. But the independent accountants are often called upon to submit a long-form report to the issuing house giving a history of the company and details of its business and management, its past profits, net assets, tax position, current profits and future prospects, as the basis for the prospectus or advertised statement;
(*c*) the independent accountants examine the trust deed or other terms of any debentures or preference shares;
(*d*) the independent accountants are normally in touch with the company's affairs up to a few days before publication, but if for any reason there is a delay they make further enquiries before publication;
(*e*) the independent accountants examine the current trading results of the company since the last accounting date (up to which the results have been included in their report) in order to satisfy themselves on the information given in the narrative of the prospectus on financial and trading prospects.

The following further requirements may be compared with the earlier statement of matters which independent public accountants should consider before consenting to a registration statement with the S.E.C.

(*a*) the profits shown in the independent accountants' report for the past five or ten years must give a fair view of the trend of the results of the business;
(*b*) the estimates of current profits included in financial and trading prospects in the narrative of the prospectus or advertised statement must not be misleading for any reason, and should disclose any anticipated recession in subsequent years;
(*c*) adjustments should be made in arriving at the profits reported by the independent accountants for material income or expenses relating to other years, and for the discontinuance of a material part of the company's business;
(*d*) the narrative of the prospectus or advertised statement should draw attention to material factors affecting sales, materials and labour.

Interim Reports

There is no statutory or stock exchange requirement for the filing or circulation to shareholders of half-yearly financial information. There is some pressure for this to be done by the bigger companies, but as yet it is done in comparatively few cases. The Stock Exchange, London, does require immediate information relating to new subsidiaries or new businesses acquired.

Independent Accountants

Under Section 159 of the Companies Act, 1948, every company must have an auditor.

Section 161 and the Fourth Schedule of the Companies Act, 1948, provide that (except in the case of an exempt private company) the auditor, for the purposes of the annual accounts and for reporting in a prospectus, must be:

(*a*) either
(i) a member of a body of accountants established in the U.K. and recognised by the Board of Trade. Such bodies are:
The Institute of Chartered Accountants in England and Wales,
The Institute of Chartered Accountants of Scotland,
The Institute of Chartered Accountants in Ireland,

The Association of Certified and Corporate Accountants; or

(ii) authorised by the Board of Trade as having similar qualifications obtained outside the U.K. or as having obtained adequate knowledge and experience during employment by a member of a recognised body of accountants; and

(*b*) he must not be himself in partnership with or employed by an officer or employee of the company.

There is nothing to prevent the auditor holding shares in his client.

The Stock Exchange, London, stipulates that reports be made by the auditors of the company, but permits that other qualified accountants may be appointed to make a joint report with the auditors. This is often done at the request of the issuing house, if the auditors are not a well-known firm.

When a foreign company seeks a quotation on The Stock Exchange, London, the report of the foreign auditors is accepted, provided the Share and Loan Department is satisfied that they are of good standing.

The Ninth Schedule of the Companies Act, 1948, sets out the matters to be expressly stated in the auditors' report on annual accounts. In practice, accounting firms try to limit the wording of their audit report to make it easily understood, and there is at present no common form used throughout the U.K., but normally it is stated that:

(*a*) the accounts are in agreement with the books, which have been properly kept, and the auditor has obtained all the information and explanations required;

(*b*) the accounts comply with the Companies Act, 1948, and give a true and fair view of the state of affairs and the results of the company.

The independent accountants' report required under the Companies Act, 1948, and by the Stock Exchange, London, for prospectuses and advertised statements contains the financial statements and has therefore no common form.

CONCLUSIONS

There is no federal legislation in the United States of America applicable to all companies, as is the Companies Act, 1948, in the United Kingdom.

American companies which have offered securities for public sale, or whose securities are listed on a recognised stock exchange, are controlled as to accounting and auditing procedures by S.E.C. requirements with increasing pressure from the relevant stock exchanges. Other American companies are controlled only by state laws, which rarely come up to the standard required in the U.K., and by professional standards.

There is little difference in the U.S.A. between S.E.C. requirements on accounting and auditing procedures and generally accepted professional standards.

The S.E.C. requirements concern information to be lodged with itself (which is available for public examination) and not in the first instance the form and contents of the company's annual accounts, though the latter are greatly influenced by the S.E.C. requirements.

Annual Accounts

There are significant differences in the types of audit reports normally used in the U.S.A. and in the U.K. In the United States the audit is tied to "generally accepted auditing standards", whereas in the U.K. it is tied to the information and explanations required by the auditors. Accounting requirements, again, in the U.S.A. are tied to "generally accepted accounting principles", but in the U.K. to the Companies Act, 1948.

The United States profession up to the present time has been more specific on auditing standards than the profession in the U.K. There are some audit procedures which are generally accepted in the U.S.A. which are not normal practice in the U.K. Differences in accounting principles are relatively few, but where they do exist they are important.

In the U.S.A. the income statements give sales, cost of sales, gross profit, expenses, profit after expenses, other income, profit before tax, tax, profit after tax and special items. In the U.K. the profit and loss account often shows only the profit before tax and after tax.

Much more detailed information is required in the U.S.A. by the S.E.C., regarding the company's accounting policies and the make-up of the figures, than is usually required or given in the United Kingdom.

Prospectuses

In the U.S.A. listing applications to the relevant stock exchange have to comply with the requirements of that stock exchange, and in addition a separate registration statement (of which the prospectus frequently forms part) has to comply with federal legislation and to be filed with and approved by the S.E.C. In the United Kingdom prospectuses are controlled by the relevant stock exchange and may have to conform to specified statutory requirements of the Companies Act, 1948, but they are not controlled by any government department.

Prospectuses in the U.S.A. are usually circulated in booklet form. In the U.K. they are usually circulated in the form of a proof of a newspaper advertisement.

Financial statements in an American prospectus are the representations of management, and the independent accountants give their opinion thereon. In a U.K. prospectus the financial statements up to the last accounting date are given as facts by the independent accountants in their report.

Profit forecasts are not given in the U.S.A., and the financial information is confined to actual results up to the latest reasonable date. In the U.K. it is usual for management to give in the body of the prospectus a forecast of the profit for the current year not yet ended.

General

In the U.S.A. annual reports are required by the S.E.C. under the 1934 Act, which are separate and distinct from the annual reports to shareholders. In addition, half-yearly reports and other interim reports are required by the S.E.C. for companies which are required to file

annual reports. There are no corresponding requirements in the United Kingdom.

In the U.S.A. annual reports of companies to their shareholders do not have to be approved by the shareholders in general meeting. They have to be so approved in the U.K.

There is no federal requirement in the U.S.A. for the accounts of every company to be certified by independent public accountants. In the U.K., the accounts of all companies must be audited, and (except in the case of exempt private companies) by recognised accountants.

There is no legal or other requirement in the U.S.A. that companies should submit to shareholders the election or ratification of auditors. There is such a requirement in the U.K.

In the U.S.A. the S.E.C.'s concept of "independence" of the public accountants is stricter than the views of the profession in the U.S.A. and of the profession in the U.K.

The views of the American Institute of Certified Public Accountants on accounting principles and auditing procedures are, to a considerable extent, binding on the accounting profession in the U.S.A. This is not so in the U.K., where the pronouncements of the professional accounting bodies are recommendations to their members.

[*Concluded*]

A summary of the Report of the Parker Committee, which is also examined in the Editorial on page 253.

The Committee on Education and Training

THE REPORT OF the Committee on Education and Training, copies of which are available from the Secretary of The Institute of Chartered Accountants in England and Wales, reaches the conclusion that the fundamental character of the Institute qualification should not be altered, but the means and terms of entry into membership need to be adapted to changed and changing conditions.

The prime requirement, the Committee considers, of a candidate for membership is that, with a background of a good liberal education, he should have developed, in ethics, outlook and conduct, the characteristics appropriate to membership. Two other essentials are a basic theoretical knowledge of all aspects of the work of the profession, and sufficient practical experience of professional work to develop method, versatility and powers of judgment.

Training for membership, it is recommended, should continue to be based on service under articles for a period of up to five years in the offices of members in practice. It is recognised that a profession which wants to attract the best talent must look increasingly to those who have received at least a sixth form education, and the Committee therefore recommends that candidates for admission to articles who remained at school until the age of 17½ and obtained passes in two subjects at advanced level should be granted a reduction of the period of articles to four years. The existing reduction to three years should be continued for graduates of United Kingdom universities, whilst certain graduates of other universities not within the existing concession should be granted a reduction to four years.

The minimum educational standard for five-year articles should be amended so as to disregard passes in craft and technical subjects and to add an upper age limit of 17½ for its attainment. The need for the preliminary examination having disappeared, this examination should be discontinued.

It is recommended that, as part of the process of exercise of the Council's discretion as to the registration of articles, a practising member who is about to undertake the responsibilities of a principal for the first time should be interviewed, by one of a panel of senior members of the Institute appointed by the Council, in order to establish that the practising member fully understands a principal's responsibilities and believes himself able to discharge them. Automatic interviews would be confined to those about to take their first articled clerk, but it is suggested that the Council should have power to require the interviewing of existing principals at its discretion.

For the benefit and protection of both the principal and the articled clerk, it is proposed that the first six months of articled service should be compulsorily a period of probation within which either party might withdraw.

Whilst there should be no encouragement of transfers of articles, it is considered that they should continue to be permitted. The existing limits upon the period of secondment to industry should be continued, and principals should be allowed, where it is in the interest of the clerk, to second him to one or more other practising firms. An overriding limit ought, it is suggested, to be placed upon the combined length of time spent away from the principal (including study leave) of one-third of the term of the articled service.

The changes proposed in the examination syllabus have as their aim the giving of greater emphasis to the uses of accounts, particularly for the purposes of management, and the inclusion of certain elementary aspects of economics and statistics.

The suggestion is that the Intermediate examination should be reduced in scope and taken earlier in the period of articles, and that the Final be divided into two parts, not progressive, but separated by an interval. The Intermediate would consist of four papers of three hours each; two in Book-keeping and Accounts (including the use of accounts), and one in each of Auditing and General Commercial Knowledge (including Elements of English Law). Executorship and Cost Accounts would thus be dropped from the Intermediate; it is not the intention, however, that candidates should be relieved of all study of taxation at this stage (though there would be no separate paper) but that study should be limited to acquiring such rudimentary knowledge of income tax and profits tax as would enable them to apply correct principles to simple examples on book-keeping and accounting presentation.

If the recommendations were adopted the first part of the Final would consist of five papers (two in Advanced Accounting; Auditing, including Investigations; Taxation I—relating to personal incomes and death duties; and English Law I) and the second part of four (Advanced Accounting III; General Financial Knowledge—including elements of Economics; Taxation II—as for Taxation I with the addition of the taxation of corporate bodies, including profits tax; English Law II). Advanced Accounting III is a new paper on the use of accounts for the purposes of management, and represents (more or less) an expansion of that part of the existing General Financial Knowledge paper which relates to Cost and Management Accounting, so as to fill an entire paper. The remainder of the General Financial Knowledge paper becomes General Financial Knowledge (including elements of Economics).

The Committee does not consider that the Institute should feel bound, as a matter of principle, to confine itself to being an examining body, but recommends that it should where necessary intervene directly or indirectly in arrangements for study and tuition. Enquiries should be made regarding the feasibility and cost of providing, in collaboration with local educational establishments, what may be termed "briefing courses." The idea is that at the time he commences his preparation for each stage of his examinations the student should have the opportunity of an introductory course (of not longer than three weeks) aimed at reducing the burden of subsequent study, partly by setting his studies in the right perspective, partly by smoothing certain well known difficulties in advance, and partly by imparting orally the essentials of one or two subjects such as bankruptcy and arbitrations, on which disproportionate study time is liable to be spent. The introductory course at the beginning of articles should, in the opinion of the Committee, be compulsory; whereas the other two should not. The minimum total allowance of study leave (which would cover attendance at these courses) would then need to be increased to twenty-six weeks.

Other recommendations relate to the collection of information about the level of remuneration from principals on a voluntary basis and the keeping of records by the Institute; the provision of study material for each articled clerk upon passing his Intermediate examination; and the method whereby study courses and the provision of study information might be financed.

There are statements of reservations by the Vice-Chairman of the Committee, Mr. Bertram Nelson, F.C.A., and by Mr. H. O. H. Coulson, F.C.A. The former draws attention to the need for collaboration with the universities, and suggests that in this present era of university expansion the opportunity should be taken to explore the desirability of increasing intake quotas under the Universities Scheme. There should, he considers, be further work on the preparation of brochures for headmasters giving information about the scheme and about the profession. University syllabus requirements ought to be reviewed in the light of the experience gained during the last fifteen years, and university teachers should be asked to join with other teachers and educational advisers in discussions on methods of teaching and the provision of new books. Members of the Institute with practical experience should be encouraged to take part in university teaching on a part-time basis and there should be more contacts between the profession and the universities on accounting research. Accountancy, he says, has been accepted by many universities as a good university subject, capable of growth, useful as an intellectual discipline and valuable as a method of analysis. The main need now, he concludes, is for the profession to give a friendly look at the opportunities which are developing.

In his statement of reservations Mr. Coulson *inter alia* does not accept the majority view on the non-publication of detailed subject-by-subject examination results and the comments of examiners, but recommends that statistics of the overall performance in the Institute's examinations on the lines of those quoted in the report should be regularly ascertained and published, and that information should be published about the results in individual papers and questions in the examinations. His comment upon the suggestion that students should be supplied with certain portions of the material contained in the *Members' Handbook* reads: ". . . students are likely to have been only too well informed upon Institute publications and therefore the more likely to quote—or possibly misquote—from those pronouncements as if these contained the whole answer to any question and obviated the need for the student to think for himself. To the extent that the

recommendation may increase this tendency, it is regrettable."

It is the express intention of the Council, in publishing the Report and Statements of Reservations, to facilitate discussion. It is stressed that the views expressed by the Committee are not necessarily those of the Council, which will not be in a position to indicate its own attitude to the various recommendations until it has had an opportunity of studying the views of its appropriate committees and those of the District Societies.

A pension scheme unaltered for five years is almost certainly not up to date. This article gives some of the reasons.

Pensions in Modern Dress

By Gordon A. Hosking, F.I.A.

TO MANY ASSOCIATED with pension arrangements it may seem odd to say that there has been little fundamental change in them for half a century. We can go back a very long time and still find employee pension schemes providing for substantial pensions based on salary, and accumulating funds for that purpose. The most important taxation provision on employee pensions dates back to 1921 and with only one amendment (made by the Finance Act, 1930) is still in operation (as Section 379 of the Income Tax Act, 1952). This provision encouraged many of those employers who had previously paid pensions out of current revenue to fund their "liabilities" in advance.

Private individuals have for many years accumulated pensions by means of endowment assurance policies. The Finance Act, 1956, gave better tax reliefs under certain conditions—it introduced "retirement annuities" and freed the capital element in purchased life annuities from income tax—but even before Mr. Selwyn Lloyd's recent Budget speech many preferred the old method to the new because of the restrictions in the 1956 Act. The proposed new surtax provisions may well see more taxpayers than ever preferring the old method.

Yet in quite important details there have been a vast number of changes—and, as with most financial matters in this world of ours, many of the changes are the direct or indirect result of taxation or the reliefs therefrom.

Before 1921 the only reliefs for the provision of employee pensions arose for the employer under the ordinary tax legislation and for the employee by way of life assurance relief. The Finance Act, 1921, enabled employees to obtain relief on contributions (subject to certain conditions) at the highest rate of income tax and surtax payable, and laid down a more specific basis for relief in respect of employers' contributions. It also provided for interest earnings of certain pension funds to be free of income tax. These were very important changes, and the early 1920's saw the setting up of many privately invested pension funds. It was not long before the life assurance companies found a way of obtaining some of the advantages of the 1921 Act by means of policies issued to trustees of employee pension schemes, but it was not until the Finance Act of 1956 that they could obtain direct tax relief on income from moneys invested as the backing for such policies.

Fundamentally the present tax reliefs rest on Section 386 of the Income Tax Act, 1952 (formerly Section 19 of the Finance Act, 1947), although it is not a Section about which we hear very much. It contains, in fact, a sanction which the Inland Revenue can use, but does not often have to use, because virtually everyone complies with the rules. The penalty of non-exemption is tremendous, amounting in effect to taxing the money twice in the employee's hands—the money paid in by the employer during service is treated during that time as the employee's income for tax purposes, though the pension is still taxable income when it emerges. The Section is, in fact, purely a way of forcing employee pension arrangements into one of the patterns acceptable to the Inland Revenue. The principal methods of obtaining exemption arise under Section 378, through securing approval under Sections 379 or 388 or bringing the scheme within the definition of an excepted provident fund laid down in Section 390.

Even the latest legislation mentioned in the preceding paragraphs dates back fifteen years. Why then so many recent changes of detail? They have come about partly because of variations in Inland Revenue practice, partly because of the increasing size of National Insurance contributions and benefits and partly because of the new graduated pensions scheme which came into operation in April, 1961, and which allowed the option to contract

out. Schemes effected with life assurance companies have also undergone quite a number of changes since the Finance Act, 1956, because it made them rather less vulnerable in comparison with the privately invested fund.

The Commissioners of Inland Revenue were given very wide powers under the 1921 Act, and on the whole these have been applied very fairly. But much irritation was caused by one limitation. A pension scheme to which the employee contributed was not approved under Section 379 if it provided a pension of more than £2,000 per annum. The reason for this limitation was said to be the loss of tax due to the rate of relief given on contributions paid by the higher salaried employees exceeding to a considerable extent the reduced rate of tax chargeable upon the trustees on contributions withdrawn by an employee on leaving. There were and are, however, so many ways round the limitation, and so many illogical results, that the Millard Tucker Committee in 1954 recommended its removal. Nothing was done until early in 1960, when the limit was raised to £3,000. Possibly the new surtax provisions proposed by Mr. Selwyn Lloyd in his recent Budget speech may cause it to be raised further, or possibly even removed altogether.

This limitation upon the amount of pension, and the employers' desire to provide part of the retirement benefits of senior employees as a tax-free lump sum, are the principal causes of the spread of "top hat" schemes, whether insured or privately invested. These schemes are nearly always non-contributory, at least in name, partly to avoid the limitation and partly because the employee would not get full tax relief on his contributions to a scheme providing part of the benefit as a lump sum. But most of them are non-contributory only in name: in fact the employee has accepted a reduced salary—or foregone a rise—as part of the arrangement. The removal of the limit would be likely to have the effect of reducing the number of top hat schemes, as it would enable the employer to extend the salary range of his basic contributory scheme. This would not overcome the problem of providing a lump sum—but a lump sum could still be provided by a separate non-contributory scheme.

One is sometimes left wondering whether lump sums on retirement are really worth while. It is true that such a sum is useful, and that if it is used to buy an annuity a considerable part of that annuity will be tax free; but the part that is not tax free will be treated as unearned income, and the taxpayer will not be helped by the proposed revision of the surtax arrangements. On the other hand, with the same contributions, the employer could provide better gross value as a pension. The funds for the endowment assurance accumulated by the life assurance company, or the funds accumulated in a privately invested lump-sum scheme, are subject to some income tax, and in the case of the former the life assurance company's expenses, such as brokers' commission and possibly stamp duty, are higher than under other methods of accumulation. Over a longish period these items can make quite a significant difference to the cost, and it is always worth exploring which method really gives the better net result for a given contribution.

Before the last war, probably few employers had regard to the National Insurance pension when considering what benefits to provide under an employee pension scheme. Now that the contributions by employer and employee have grown to significant amounts—as also has the pension—one has to consider the combined result. If, for example, a pension scheme provides a two-thirds pension to a £12 a week man, that is, £8, and he is married, his total retirement income (apart from any benefits under the new graduated scheme) will be £12 12s. 6d. Very nice for the employee—but is the total cost a justifiable charge on him, or on industry?

There are, of course, some schemes which follow this sort of pattern because they have been in operation for many years, but most employers contemplating a scheme today would rightly argue that the National Insurance pension is adequate to cover the first £5 or £6 per week of earnings, and that pensionable salary for the purpose of the scheme should be defined as only the excess over such a figure. In this way the cost to both parties is kept to a reasonable amount.

The National Insurance Act, 1959, with its option to contract out, has been argued about and written upon *ad nauseam*, but there is no doubt that it has affected, and will affect, the pattern of pension schemes. The Registrar of Non-Participating Employments has specified his requirements for issuing a certificate of contracting out, and those employers who decide to contract out have, of necessity, to fit their pension schemes into these specifications—which is not very difficult in most cases. This has led the Inland Revenue to adopt a re-examination process which has resulted in the clarifying of some issues and the alteration of various practices. For example, there is now a published scale of maximum pensions under an approved scheme for less than twenty years' service—one-sixtieth of final salary for each year if service is five years or less, 10 per cent. at six years, rising to 20 per cent. at ten years, then to 30 per cent. at thirteen years, then by 5 per cent. for each year up to 60 per cent. at nineteen years, and 66⅔ per cent. at twenty years. But, as always, there are exceptions. The scale may not always be applied, for example, if the employee has a paid-up pension in a former scheme, has received a refund of contributions from such a scheme or has formerly been self-employed or a controlling director—for such people the formula has to be adjusted.

Normally no refund of employee contributions to an approved scheme may be made if the employee remains in the service of the employer. But as from last November the rules may provide for such a return to a woman who ceases to be a member of the scheme on marriage but remains in the employment.

It would take a much longer article to set out all the trimmings that the pension garment has been acquiring recently, but it has become increasingly obvious that any pension scheme which has remained unchanged for more than, say, five years is almost certainly not up to date—a terrifying thought for those engaged on the technical side of pension work.

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Filling In Forms

IN APRIL, JUST about the time when the last issue of ACCOUNTANCY was reaching its readers, a good number of them were filling in a form. A census doesn't happen every year, and when we are asked about the water supply in our residence, in addition to the more obvious personal details, it is appropriate that we should take our form filling seriously. Some of us were asked more than that; but even those of us whose form-filling expertise was only mildly tested by form E.90 may have been tempted to deep thoughts about form filling in general.

Anyone who took a quick opinion poll on the subject would probably discover that the English people are more unanimous upon it than on any other conceivable topic: filling up forms, they would say, is one of the curses of our time. But this hundred per cent. reaction, with the "Don't knows" disappearing for the moment from sight, perhaps should not be taken at its face value. It is common form to dislike form filling, just as it is common form to dislike (temperately) one's daily work; but neither is necessarily true of all of us. There are some at least—uncountable because unconfessed—who take pleasure in the forms that this or that function of civilisation puts before them. In April there was another form to be completed, although far fewer people completed it: the piece of paper on which electors were asked to put a single X. Some voters, at least, probably felt an unacknowledged sense of anti-climax at the simplicity of the task. And in the nature of things it is to be expected that accountants include something over the national average of such people in their number.

For the pleasure, if that is the right description of the form-filling amateur's emotions, is akin to the pleasure of balancing the books, just as both are of the same family as the pleasure of completing a difficult crossword: a matter of getting the right symbols in the right places, preferably with the neatness that comes to some but not all who live with figures; with the refinement of enjoyment that comes with brain-twisting. A good form should have its directions clear but complicated. (To spot an ambiguity in the instructions may be itself pleasurable, but this is a different and rather perverse satisfaction.) Accountants, even though they might be expected to be sated in their work, must surely sometimes enjoy this occasional homework. Perhaps even farmers, who have become almost proverbially the nation's principal fillers up of forms, may occasionally find the Ministry's latest return a pleasant change from the tilling and sowing they profess to prefer.

None of this is to suggest that the anti-form-fillers are not in an overwhelming majority; and no one who has helped a cantankerous old lady to fill in even the simplest personal questionnaire can have any doubt about how their dislike is expressed. In its simplest terms it makes two points: the whole form is unnecessary; and the individual questions are impertinent as well. Name? Well, perhaps. Address? What do they want to know that for? Age? I'm not telling. And the rest is silence—silence, that is, in the context of the form. Anything but silence, literally. The Registrar General and his enumerators must have had to make some liberal allowances in totalling up the answers.

One does wonder, sometimes, what exactly happens to all the forms one fills up. There was a gentleman some years ago who wrote to *The Times* about the driving licence application form. It will be remembered that this includes a question whether the applicant is familiar with the Highway Code. The writer of the letter said that, regarding this as an improper question, he had for years past answered "No"—and nobody had ever taken the matter up with him. On the other hand, the same form contains a string of medical questions calling for the answer (from most of us) "No"—"Have you ever had this, that and the other specified disease?"—and followed briskly with something like "Can you read a car's number plate at 20 yards distance?" If, having written a succession of Noes, you write No to this also, you will find that the matter *is* taken up. And unless the practice has altered recently, what you will receive is a *duplicated* slip pointing out what you have done and asking whether you really meant it. There are surely all sorts of morals in this; not least the amount of salt that the collector of forms must take with the information he receives.

Some forms are indeed brain-twisters, with the instructions lengthy and obscure, with questions that really do seem irrelevant, and (crowning injury) with insufficient space for the answers. There are probably few of us who have never got to the end of a job of form-filling and seen too late the large PLEASE USE BLOCK LETTERS at the top of the document. There are probably as few who have always read the instructions through before putting pen to paper. Sometimes fate puts us at the receiving end of a great consignment of forms, filled up it may be by people whom we know to be of at least average intelligence and literacy; and we have marvelled at the ingenuity of providence in arranging for there to be in our sample at least one specimen of every mistake it is possible to make in ten lines. The stupidity of man momentarily appals us. That is the moment when we should (unless we are supermen) pause for humility. For even if we enjoy our form filling it is very doubtful indeed whether we are entitled to a notional M.F.F. after our names.

An address given at the Taxation Conference of the London and District Society of Chartered Accountants at Eastbourne in March, 1961.

Fringe Benefits and Schedule E

By Eric C. Meade, F.C.A.

IN CONSIDERING THIS subject we must first be quite clear about the extent and scope of the charge to tax under Schedule E. For the sake of simplicity only employees resident in the United Kingdom and performing the duties of their employment wholly or partly there will be considered. Such an employee is liable under Schedule E in any year of assessment in respect of the emoluments he derives for that year of assessment from the office or employment he holds. The expression "emoluments" is defined as including all salaries, fees, wages, perquisites and profits whatsoever.

We must bear in mind that Chapter II of Part VI of the Income Tax Act, 1952, extends the meaning of the word emolument in the case of directors, and in that of certain employees whose emoluments exceed £2,000 in any year of assessment. Any sum paid to such a person in respect of expenses is deemed to be a perquisite of his office or employment, and hence an emolument. Moreover, that Chapter requires that certain benefits provided by an employer be treated as if the employee himself, and not the employer, had incurred the expense of providing the benefit. The effect of this is that the employer's cost of providing the benefit is to be treated as an emolument of the employee. Whilst I shall have more to say about these provisions a little later, I intend, for the moment, to ignore them.

At first glance one might well be excused for thinking that any advantage provided by an employer to an employee would be an emolument within the scope of Schedule E. That this is not so is clear from a number of decided cases which have necessitated a careful review of the exact language used in the Schedule E charging section. These cases have resulted in a number of principles being enunciated by the courts, and I should like to dwell a little upon these principles.

The first principle is that a payment made by an employer to an employee does not attract Schedule E tax simply and solely by reason of the fact that the employee happens to be in the employment of the employer. This is so because of the existence of the word "therefrom" in the charging section. The payment must arise *from* the office or employment. If it can be shown that the payment, though made by the employer, does not arise from the employment, it is not taxable and therefore represents a gift and not a taxable emolument. A typical illustration of the importance of this principle is provided by the House of Lords decision in the recent I.C.I. housing scheme case, *Hochstrasser* v. *Mayes* (1959, 3 All E.R. 817). Under the housing scheme, I.C.I. undertook to reimburse an employee should he suffer a loss on selling his dwellinghouse, provided the sale was necessitated by his being required to move, by reason of his employment with the company, from one part of the country to another. The House of Lords held that the reimbursement of the loss was not an emolument assessable under Schedule E. The General Commissioners had made an important finding of fact that the employee in question received under his service agreement the full salary appropriate to the appointment he held and that the housing scheme was introduced by the company not to provide increased remuneration for employees, but as part of a general policy to secure a contented staff by easing the minds of employees who were compelled to move from one part of the country to another. The natural inference to be drawn from this finding was that the employee's basic remuneration was the reward for his services, and that the reimbursement of the loss was something else other than a reward for services. Lord Radcliffe considered that this case was near the border-line. He said:

> I do not imply by that that I find any particular difficulty in deciding upon which side of the line it lies; but it is not easy in any of these cases, in which an employee receives a benefit which he would not have received but for his holding of that employment, to say precisely why one considers that the money paid in one instance is, in one instance is not, a "perquisite or profit therefrom." The test to be applied is the same for all; it must arise from the employment.

Lord Radcliffe continued:

> I think that the meaning of those words is adequately conveyed by saying that, while it is not sufficient to render a payment assessable that an employee would not have received it unless he had been an employee, it is assessable if it has been paid to him in return for acting as or being an employee.
>
> The essential point is that what was paid to him was paid in respect of his personal situation as a house-owner. Such a payment is no more taxable as a profit from his employment than would be a payment out of a provident or distress fund set up by an employer for the benefit of employees whose personal circumstances might justify assistance.

Lord Denning arrived at the same conclusion by a different means. He said that the employee in selling his house had suffered a loss arising out of his employment. The company had then reimbursed him for the loss, thus putting the employee in the position of having incurred neither profit nor loss. How, he asked, could you then tax the employee as having received a profit from his employment? Certainly an ingenious argument.

It is as well to remember that a profit or perquisite arising from an employment is equally within the scope of Schedule E whether the payment is made by the employer or by a third party. Thus the tips of taxi-drivers and waiters, the Easter offerings of clergymen and the ground collections of professional league cricketers have each been held to be taxable. When analysed, it has to be admitted that these forms of payment are in the nature of a reward for the services rendered, by the holder of the employment, to the third party who has derived a benefit for the industrious performance by the employee of his duties.

But if it could be shown that such payments were given out of admiration, respect or regard for the personal qualities of the employee as an individual, then they would fall outside the tax net.

Proceeding from there, it is possible to enunciate two further principles. Firstly, if the recipient's contract of employment entitles him to receive a voluntary payment, that is strong ground for holding that the voluntary payment arises from the employment. Secondly, the fact that the voluntary payment is of a recurrent character also affords strong evidence for the conclusion that it arises from the employment. But, as Lord Justice Jenkins said in the case of *Moorhouse* v. *Dooland* (1955, 36 T.C. 12), a voluntary payment may be made in circumstances which show that it is given by way of present or testimonial (grounds personal to the recipient), such as a collection for a particular individual who is at the time vicar of a given parish, made because he is in straitened circumstances. In such a case the proper conclusion is likely to be that the voluntary payment is not a profit accruing to the recipient by virtue of his employment, but a gift to him as an individual paid and received by reason of his personal needs.

It is well known that the courts have held that the benefit of a professional footballer is liable to tax, but that the benefit of a county cricketer is not. What is the explanation of the apparent inconsistency? In the case of a footballer, it is the custom to provide him with a benefit every five years and, if he is transferred to another club in the meantime, to provide him with a proportionate share of his accrued benefit. Thus, in this case, the quality of recurrence is present. Moreover, every footballer on taking up an appointment with a Football League club is aware of this custom, and the inference is that he looks to the quinquennial benefit proceeds as part of the remuneration he expects to receive for the services he renders to his club. In the case of the professional cricketer such a benefit is normally granted only once, and then at the end of the cricketer's playing career. The cricketer has no entitlement to a benefit, the granting of which is at the absolute and unfettered discretion of the club committee. It was in 1927, in the famous case of *Reed* v. *Seymour* (11 T.C. 625), that the House of Lords held that the proceeds of Mr. Seymour's benefit represented a personal gift, its purpose being not to encourage the cricketer to further exertions, but to express the gratitude of his employers and the cricket-loving public for what he had already done, and their appreciation of his personal qualities. The distinction between the two is a very fine one indeed, but the cricketer had the advantage that in his case the principle of recurrence or repetition was not present. Long service awards should always be considered in the light of the *Reed* v. *Seymour* decision.

The collections made on behalf of a professional league cricketer fall into a different category. The league cricketer is entitled under his service contract to ground collections on each occasion that he performs his duties in a meritorious fashion, and of course the principle of recurrence is present. It is therefore hardly surprising that it was held in *Moorhouse* v. *Dooland* that these ground collections were profits accruing from the league cricketer's employment. They arose under the contract of service, and they were recurrent.

I should now like to turn to another principle, one which was enunciated by Lord Halsbury in *Tennant* v. *Smith* (1892, 3 T.C. 158). He said: "I come to the conclusion that the Act refers to money payments made to a person who receives them, though, of course, I do not deny that if substantial things of money value were capable of being turned into money, they might for that purpose represent money's worth and be taxable." In the same case Lord Macnaghten said: "On examining Schedule E it is obvious that it extends only to money payments or payments convertible into money." This principle has, of course, been negatived by statutory provision in the case of directors and in that of employees remunerated in excess of £2,000 a year. But dealing with other employees, the principle applies whether or not the value of the benefit has been taken into account in fixing the remuneration paid. Thus, if the employer provides a staff outing, the value of the outing cannot be made the subject of an assessment under Schedule E on the employees concerned, for what they received was incapable of being converted into money by them. It is sometimes thought that Schedule E can easily be avoided by the employer attaching conditions to the payment in kind which restrict the right of the recipient to sell the article; but normally such a condition made by the employer will not achieve the result intended, for a benefit may be convertible into money even though it cannot be assigned. Thus the employee might well be able to obtain cash from permitting some other party to use the benefit bestowed upon him, even though he retains the legal title to the asset in question, and in that case the benefit would still be treated as capable of being converted into money.

In this context we can consider the question of luncheon vouchers, and in particular those which are not transferable. Leaving aside the fact that by concession vouchers up to the value of 3s. are not treated as Schedule E emoluments, what is the legal position? I would say that from the legal standpoint they are taxable for the simple reason that they are a form of currency. Like a banknote, a luncheon voucher is the equivalent of cash equal to its nominal value, and it is, in my opinion, useless to argue that the voucher is a worthless piece of paper, for by the same token so is a banknote or a cheque. But opinions vary on this subject, and they will doubtless continue to vary until the courts are given an opportunity of deciding the point.

The question of a rent-free residence provided by an employer for the benefit of his employee is one that has been considered by the courts on numerous occasions, and it is no easy matter to extract from the decided cases the principles involved. If the employee occupies the premises in performing his duties, then no assessment can be made on him, for he occupies the premises in a representative capacity, with the result that the legal occupier is the employer himself. But in other cases the employee's occupation of the house will be beneficial. By virtue of his beneficial occupation, he is liable to the Schedule A tax on the premises. Where the employee himself discharges the Schedule A tax, he cannot be further assessed on the annual value of the residence as part of his emoluments. But one frequently finds in such cases that the employer discharges the Schedule A tax. In that event the principle to be deduced from court decisions appears to be that the net annual value is to be treated as part of the employee's emoluments. Moreover, it would appear that the payment of Schedule A tax itself represents an emolument, for the employer will have discharged a pecuniary liability of the employee. I shall return to this subject a little later.

Assuming that a benefit or gift in kind is made by an employer to an employee, and it is shown to represent a reward for services and to be convertible into money, the question arises of the *quantum* of the income that is assessable to Schedule E tax. I should like here to consider the recent decision of the Court of Appeal in *Wilkins* v. *Rogerson* (1961, 1 All E.R. 358), for it affords a striking illustration of the principle involved. Mr. Rogerson was an employee of a company which

decided to give certain members of its male staff a Christmas present in the form of a suit, overcoat or raincoat at a price not exceeding £15. The company arranged with a well-known firm of multiple tailors for the employees in question to be fitted out with the necessary clothing, and the clothing firm was instructed to render its account direct to the company. Mr. Rogerson had been fitted out with a suit costing £14 15s., for which the company had paid. He had thus received a gift in kind convertible into money, but the question at issue was whether the assessment should be £14 15s., or the secondhand value of the suit once the employee had received it. In his judgment, the Master of the Rolls said that it was plain that Mr. Rogerson received nothing until he took delivery of the suit from the tailors. His remuneration was therefore the suit, and this had to be valued at the moment of time that he received it. Its value then could only be its secondhand value, which for the purposes of the case had been agreed by the parties at £5 only.

Not infrequently an employer discharges a personal liability of his employee, and it might be asked how this situation fits in with the principles of convertibility and valuation which we have already considered. The answer to this question has been provided by the courts in the cases of *Nicholl* v. *Austin* (1935, 19 T.C. 531) and *Hartland* v. *Diggines* (1926, 10 T.C. 247), in which it was held that where an employer discharges the personal liabilities of an employee the employee receives what is, in effect, immunity from his own liability, and that the measure of the Schedule E emolument is the money's worth of that immunity, which is of the same value as the liability which has been discharged. Thus in *Nicholl* v. *Austin* the rates and telephone charges of the employee were borne by the employer, and in *Hartland* v. *Diggines* the Schedule E liability of the employee was discharged by the employer, and in each case an assessment on the employee equal in amount to the liabilities so discharged was upheld. It is, of course, interesting to observe that in the suit of clothing case there was no question of the company discharging a personal liability of Mr. Rogerson. There would have been if Mr. Rogerson had taken the initiative, purchased a suit and then handed the tailor's bill to the company for payment. But, in fact, at no stage did he become personally liable for the price of the suit, for it was the company alone that incurred a liability with the tailor. This provides a typical example of how the same result can be achieved by alternative methods, the taxation consequences being entirely different.

Since the House of Lords gave its decision in the share option case, *Philbin* v. *Abbott* (1960, 2 All E.R. 763), many employers have looked to the possibility of providing their employees with share options. I should like, however, to sound one word of warning, for that decision has been misconstrued in some quarters. The facts were that Mr. Abbott was granted a ten-year option, at a price of 1s. per share, in respect of 2,000 shares, the option entitling him to acquire the shares at the market price ruling at the time the option was granted. The option was granted in the tax year 1954/55. In the year 1955/56 Mr. Abbott exercised his option in respect of part of the 2,000 shares, and at that moment of time the market value of the shares had risen by £169. The Revenue raised a Schedule E assessment for 1955/56 on the £169, contending that the option was taxable in the year in which it was exercised. The House of Lords, by a bare majority of three to two, ruled that at the moment of time that the option was granted the employee received a perquisite or profit of his office. The decision of the House was therefore that since an assessment could be made only for the year 1954/55, the year in which the perquisite was given, the assessment made for 1955/56 was bad in law and had to be discharged. The important point to bear in mind was that no assessment had been made in respect of the option grant for 1954/55, and consequently the House of Lords did not have to consider whether an assessment *could* have been made for that year; their Lordships were merely asked to confirm or deny the validity of the assessment made for 1955/56. The result of their decision was to hold that Mr. Abbott had received a perquisite in 1954/55 which was assessable as income of that year. It was left undecided what the value of that perquisite was, and hence what should have been the *quantum* of the assessment that could and should have been made on Mr. Abbott for the year 1954/55.

Whilst it has been assumed by many that, as the option granted to Mr. Abbott entitled him to acquire shares at the market value then ruling, it was of no value, I would not subscribe to that view. In the first place, it should not be overlooked that Mr. Abbott paid 1s. a share for the option he acquired. Surely, then, such an option was worth at least 1s. a share. Now let us suppose that the company had charged Mr. Abbott 2s. a share for the option. If, as I should suspect, Mr. Abbott would have been quite prepared to pay 2s. a share, then surely no one can argue that the option had no value—its value would have been at least 2s. a share. In other words, I am suggesting that a market-value option has a definite value. If, for instance, a company notified its employees that it was prepared to offer a ten-year share option exercisable at the current market value of the shares, and it invited its employees to tender for the option, which would be allotted to the highest bidder, then I think the highest bid received would give a fair indication of the true value of the option, and hence the value that could be assessed under Schedule E as an emolument of the employment. I admit that arriving at the value of an option is a matter of great practical difficulty, but equally so is the valuation of goodwill which has to be undertaken for estate duty purposes. But to suggest that an option granted under such conditions is valueless is, in my opinion, wholly unsound.

I do not intend to dwell on the advantages of retirement benefits, using the term in its widest sense, for everything that can be said on the subject is to be found in the Tucker Report issued in 1954, and I ignore the retirement annuity provisions introduced in 1956 for self-employed persons. But I cannot ignore the so-called golden handshake provisions of the Finance Act, 1960. It has been incorrectly assumed in some quarters that these new provisions open up the door of tax avoidance, permitting all payments totalling less than £5,000 made on retirement to be tax-free in the hands of the recipient. Nothing is further from the truth. If a retirement payment was taxable under the previous law, it remains taxable today, notwithstanding that the amount paid is more or less than £5,000. The 1960 legislation applies only to payments which in the past have fallen outside the tax net. It follows that these new provisions merely create a liability to tax that did not exist before; they do not extend the tax-free fringe at all.

The scope of the charge under these new provisions is very wide. They apply to all payments made directly or indirectly in consideration of, in consequence of, or in connection with, the termination of an office or employment or a change in its functions or emoluments. They apply to any payment made in commutation of annual or periodic payments that are paid in connection with such a termination or change. Broadly speaking, therefore, compensation for loss of office, gratuities on retirement and commutation payments

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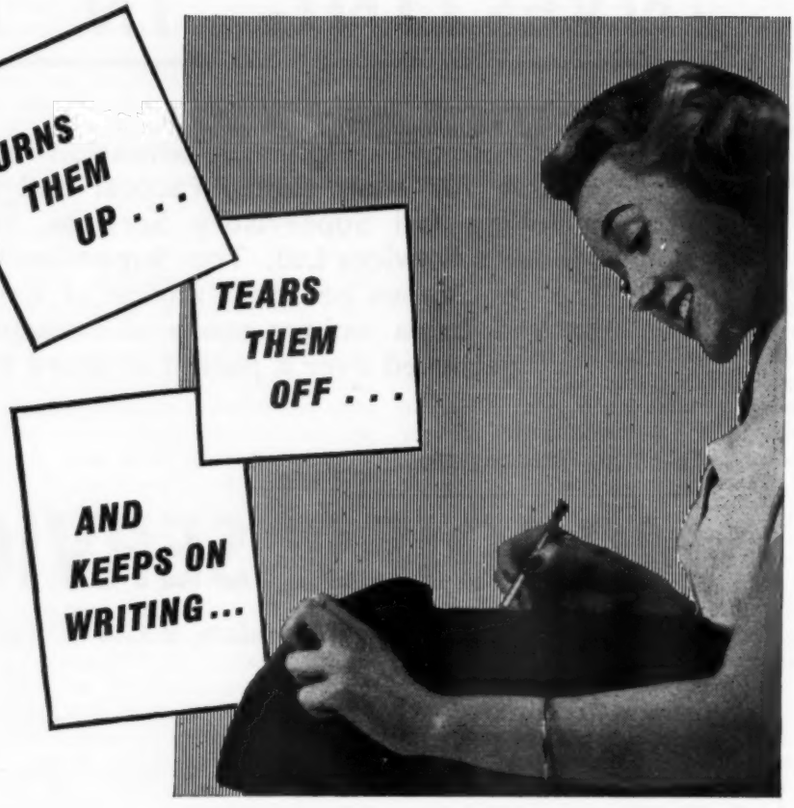

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are all covered. The provisions are equally applicable if the payment is made to the employee's spouse, relatives or dependants, and payments in kind are treated in the same way as monetary payments, being valued at the moment of time when they are given.

Certain classes of payment are exempted; the chief exemptions being payments made by reference to an employee's death or disability, and payments made under approved pension schemes. There are also exemption provisions relating to employees who have worked abroad.

In the case of payments of compensation for loss of office, tax is chargeable on the excess over £5,000. In the case of other payments, tax is chargeable on the excess over the greater of £5,000 or what is termed the "standard capital superannuation benefit." This standard is calculated by multiplying one-sixtieth of the total emoluments of the final three years of service by the number of years of service in the employment. From this figure is deducted any lump sum payment receivable under an approved pension scheme. To take an example, supposing a director had completed forty years' service, earning £10,000 in each of the last three years. The standard would then be one-sixtieth of £30,000 multiplied by forty, which works out at £20,000, less the value of any lump sum payment receivable under, for instance, a top-hat policy which he might have. Assuming the top-hat policy was worth £44,000, he could commute one-quarter, amounting to £11,000, which is deductible in arriving at the standard. In other words, his standard would be £9,000 instead of £5,000. But I must again stress that this increased standard applies only to payments on retirement other than compensation for loss of office.

Let us assume that the retirement payment made in this case was £15,000. The excess over the standard is £6,000, and it is that amount which is chargeable to tax. But that is not the end of the matter. It is then necessary to divide that chargeable sum by the number of years to which it relates. For this purpose compensation is related to the years of uncompleted service in respect of which the compensation is paid; in all other cases it is deemed to relate to six years.

Returning to my previous example, the retirement payment will be deemed to have related to six years. The chargeable amount of £6,000 is therefore deemed to represent £1,000 per year for six years. The next stage is to calculate what additional income tax and surtax would be payable for the year of retirement if the director's tax liability for that year were calculated by omitting all earnings from the employment from which he has retired, but by including with all his other income the additional £1,000. In other words, on the basis of that calculation, what is the additional income tax and surtax that is attracted by the inclusion of that £1,000? Having ascertained the additional tax, it is then necessary to multiply it by the number of years to which the payment has been notionally related—in my example six years. The resulting figure is the tax liability imposed on the retirement payment.

Undoubtedly the calculation of this liability is complicated, but the method of calculation removes, on the other hand, at least in part, much of the harshness of this attack on possible tax avoidance. It is a pity that the calculations of the tax liability are made solely by reference to the recipient's income of one particular year, for it is quite possible that his income for that year might be inflated through some reason unconnected with the retirement payment. I should have preferred to see a right of election given to the recipient to spread the liable income over the years to which it related, and to be taxed accordingly. I have no doubt that the official attitude to such a criticism would simply be that some people are never satisfied.

I should like to turn now to the special position of directors and senior employees in relation to expense allowances and benefits in kind. I use the phrase senior employee as a convenient term for an employee whose total emoluments, including all expense allowances and benefits in kind, amount to £2,000 or more in any year. Dealing first with expense allowances, Section 160 of the Income Tax Act, 1952, provides that any sum paid to a director or senior employee in respect of expenses is to be treated as a taxable emolument. This rule in no way affects the right of the taxpayer to claim an allowance for expenses which he incurs wholly, exclusively and necessarily in the performance of his duties, or, in the case of travelling expenses, that he is necessarily obliged to incur in the performance of his duties. It is a very open question whether Section 160 altered the previous law in any way. I think it did, for in the case of a genuine reimbursement of expenses incurred by an employee in performing his duties, I do not believe that that type of payment by an employer fell within the definition of an emolument, even when the expense might not have satisfied the requirements of the Schedule E expenses rule. An emolument denotes a profit, and in the words of Lord Denning, which I have already quoted, the employee is merely put into the position of having ceased to incur a loss arising from his employment. If I am correct, then the director or senior employee is in a worse position, for he will be taxed on the expenses reimbursed unless he can satisfy the rigid requirements of the Schedule E expenses rule.

Turning to the question of benefits in kind, the effect of Section 161 is to rule that, whether or not the benefit is convertible into money, it shall nevertheless be treated as a taxable emolument. Moreover, the *quantum* of the benefit is to be the amount of the cost incurred by the employer in providing the benefit. The distinction between the position of directors and senior employees and that of other employees can be readily seen by considering the case of the suit of clothing. If Mr. Rogerson had been a director or senior employee of the company, the *quantum* of the taxable emolument would not have been the second-hand value of the suit in his hands, but the cost defrayed by the company in providing that suit. Thus, for a junior employee the taxable emolument was £5 only, whereas had he been a director or senior employee it would have been £14 15s. The definition of benefits in kind is extremely wide, for it covers the provision by the employer of any living or other accommodation or entertainment, of domestic or other services or of other benefits or facilities of any nature. It is, however, interesting to note that Section 161 relates only to benefits provided by the employer and not to benefits provided by a third party. The one exception to this is that all companies in a particular group are treated as employers of a director or senior employee of any one member of the group. On the other hand, a director or senior employee is widely defined as including any members of his family and all servants, guests and dependants of his.

Certain types of benefit are excluded. These consist of meals in a staff canteen used by the staff generally, the provision of retirement or death benefits and, in the case of senior employees, the provision of living accommodation where the employee is required to reside on the business premises to perform his duties.

I have already said that the *quantum* of the taxable emolument in these cases is the amount of the expense incurred by the employer in providing the benefit. There are, however, one or two exceptions to this rule. Where an employer purchases an asset which remains his

property, but he gives a director or senior employee the right to use that asset (a company car is an obvious example), the cost of the asset is to be ignored. In such a case the value of the benefit is to be taken as being the annual value of the use of the asset. It is interesting to observe that in the case of assets that fall for capital allowance purposes within the general classification of plant and machinery, the Revenue treats the annual value of the use of the asset as being equal to the basic rate of annual allowance normally applicable on the straight-line basis to the class of asset concerned. Thus the Revenue measures the annual value of the use of a motor car at 9 per cent. of its cost. In certain circumstances this formula can enable the director or senior employee to obtain a worthwhile tax-free benefit. Let us assume that a generous company decides to purchase, for £2,000, a car for the private use of one of its directors, and that the company further decides to replace the car by a new one of the same kind every year, so as to give the director the advantage of always having a current year model. As we have already seen, the director will be assessed in respect of the benefit on 9* per cent. of £2,000, namely £180 per annum, assuming that the cost of the new car every year continues to remain exactly £2,000. I should suspect that at the end of each year the company would probably find that the price obtainable in the secondhand market for the year-old car would be in the region of £1,500. If that were so, the net cost to the company in providing the director with this benefit would be £500 per annum and yet the Revenue would assess the benefit at only £180 for the purpose of the director's Schedule E liability.

Another exception to the normal rule applies where the benefit involved takes the form of a house. If the employer owning the house is assessable under Schedule A in respect of the house, the value of the benefit to the director or senior employee who enjoys rent-free occupation is to be taken at the amount of the net annual value for the purpose of Schedule A. Here again we have an example of an anomaly, for the Schedule A net annual value bears no relation to the modern rental value of a house. To take an example, a company may purchase a house for the use of one of its directors at a cost of £10,000. It may well be that the Schedule A net annual value is only £100, whereas the true modern rental value might be in the region of £500 a year or more. Clearly the director's occupation of the house is worth £500 a year to him, and yet the benefit of his rent-free occupation of the house is measured for Schedule E purposes at £100 only. The extent of the tax-free benefit is readily seen when the interest factor is taken into account, for the annual cost of owning a £10,000 house must surely include interest at, say, 5 per cent. per annum on the funds which the company has used to finance the purchase, and this interest factor alone amounts to £500 per annum.

If, in the example I have given, the company pays any other expenses in connection with the house, the expense incurred by the company will represent a benefit assessable on the director, even if it represents a liability of the company and not a personal liability of the director himself. Thus, if the company paid the rates, the amount so paid would be treated as a taxable emolument of the director. But what about repairs, if these are borne by the company? It can be argued that, in executing repairs to its own property, the company is not providing the director with any benefit; it is simply expending money in its own interests for the purpose of maintaining the value of its asset. The Revenue, on the other hand, invariably argues that the maintenance of the property in a good state of repair provides a measure of enjoyment to the occupier, who therefore obtains a benefit from the expenditure. It is an open point, and will surely remain uncertain until the courts are asked to decide it. For my part I think that both sides should compromise. I fail to see how external repairs can be said to be a benefit to the occupant—he has suffered a detriment due to deterioration, and the consequent repair merely puts him back in the position of having suffered no detriment; it does not produce a benefit. Possibly the same argument applies to internal repairs and redecorations also. On the other hand, internal repairs and redecorations are by modern custom normally considered to be the burdens of the occupier and not of the landlord, so a distinction between the two does seem to exist. I must leave the matter there.

I referred earlier to the I.C.I. housing scheme. You will remember that an employee was reimbursed by the company for the loss on the sale of his house following his transfer to another part of the country. It was held that the reimbursement was not an emolument assessable under Schedule E. I should like to take that one stage further and pose the question: if the employee had been a director, could the Revenue have taxed the reimbursement as being an allowance for expenses or a benefit in kind? The Court of Appeal has provided the answer to that question, for in July, 1958, this very point was considered in relation to a senior employee of I.C.I. The Court held that the reimbursement of the loss was not an allowance for expenses, on the grounds that the allowance made by I.C.I. was for a loss incurred by its employee and not for an expense incurred by him. The only expense to which the employee had been put was that of purchasing the house in question. But I.C.I. did not reimburse him for that expense; all that it did was to indemnify him some years later, when he sold the house, in respect of the loss he had suffered. The Revenue did not argue the point whether the reimbursement was a benefit in kind within Section 161. This is not surprising, for the term "benefit in kind" must surely exclude a monetary payment made by an employer direct to the employee.

I am prompted to add a few words on the narrowness of the Schedule E expenses rule. It is a rule that has attracted more judicial and informed criticism than any other provision of the taxation code. In courts of law it has been variously described on different occasions as "jealously restricted," "strictly limited," "notoriously rigid, narrow and restricted . . . stringent and exacting," "unreasonable" and "the cause of considerable hardship." The Codification Committee of 1936 spoke of the "extreme rigour of the existing law," and the Royal Commission of 1955 criticised the rule as being unjust. But, despite all this, the rule remains on the statute book and continues to be applied with unrelenting severity.

The wording of the rule is, of course, hopelessly old-fashioned and shrouded in unnecessary verbiage; and if we were to accept the opinion of the Royal Commission, the rule goes no further than to provide that expenses which the holder of an office or employment is obliged to incur are allowable if they are incurred in the performance of the duties of that office or employment. In my view that is a gross over-simplification. The courts have always laid great stress on the importance of the words "wholly, exclusively and necessarily." They have explained that an item of expenditure may be necessary for the holder of an office to incur without being necessary to him in the performance of the duties; it may be necessary in the performance of those duties without being exclusively referable to those duties; it may be necessary and exclusive to the performance of the duties, but still not wholly

*12 per cent in the Finance Bill, 1961.

referable to those duties. I consider that those words "wholly, exclusively and necessarily" operate to restrict still further a restrictive rule. Moreover, the onus of proof in establishing that the expense falls within the rule rests entirely on the claimant, and that in itself adds greatly to the difficulty of obtaining a Schedule E allowance.

Everyone is aware that the Schedule E expenses rule is much more severe and much narrower than the corresponding rule relating to Schedule D. An odd situation develops when a professional man in the course of his profession accepts an appointment which is an office or employment falling within the scope of Schedule E. The Court of Appeal has recently held that in such circumstances, even though the remuneration of the office has to be assessed under Schedule E and therefore excluded from the professional profits assessable under Case II of Schedule D, any expenses incurred in earning the Schedule E remuneration can be claimed as a deduction in computing the Case II profits in so far as they fail to qualify under the Schedule E expenses rule as an allowable deduction from the Schedule E remuneration. The reason for this apparently generous treatment lies in the fact that under Case II of Schedule D all expenses wholly and exclusively laid out for the purpose of the profession or vocation are allowable, notwithstanding that part of the professional earnings takes the form of income that is assessable under another Schedule.

Finally I should like to refer to the position of an employee who suffers a loss in his employment. This can arise very easily in the case of commercial travellers who, under the terms of their contract of service, assume liability for bad debts. I give the example merely to show that the question of relief for such a loss is not a frivolous one. The only relief open to an employee who suffers a loss lies under the provisions of Section 341, as amended by Section 15 of the Finance Act, 1953. In other words, he can claim that the loss be set off against any other income of the year of assessment in which the loss is incurred, or against any income of the next succeeding year. It seems quite monstrous that there is no provision, similar to the relief allowed in respect of trading losses under Section 342, for the carry-forward of an employment loss against future Schedule E earnings derived from the same employment. Why an employee should be penalised in this way I cannot understand, and the position is, to say the least, highly unsatisfactory.

In this paper I have endeavoured to stress the principles that have to be borne in mind when considering the question of chargeability to tax under Schedule E. The borderline between chargeability and non-chargeability is an ill-defined one, and I would not suggest that it is always an easy matter to distinguish on which side of the line a particular payment falls. On the other hand, I have endeavoured to show that the Schedule E system is far from perfect and that the need for a drastic revision of the law in the light of modern circumstances and conditions is a pressing one

The Budget and the Finance Bill

THE BUDGET PROPOSALS now available in the Finance Bill, so far as they concern income tax, surtax and profits tax, are as follows:

INCOME TAX

Standard Rate

This remains at 7s. 9d. in the £ for 1961/62.

Dependent relative allowance

The income limit of the dependant for dependent relative relief purposes is increased to £155; if the income exceeds £155, the allowance of £75 will be diminished by £1 for each £1 of the excess. In other words, the allowance is the smaller of: (*a*) £75, or (*b*) £230 less the relative's income. This increase of £20 in the dependant's income limit is to take into account the increase in national insurance pensions.

National insurance contributions

The flat rate allowances for individuals over the age of 18 as from April 6, 1961, are each increased by £3, and those for individuals under the age of 18 by £2, to take into account the pension element of the increased contributions. There is to be no change in the allowance of £5 for married women and widows who have opted not to pay flat rate contributions.

Schedule E

Settled Schedule E liabilities where, under P.A.Y.E., there has been no formal assessment, will no longer be allowed to be reopened. Formal assessment will not be necessary under P.A.Y.E. (assessment is at present required where the taxpayer is on an earnings basis or is liable to surtax) unless required by the taxpayer by notice in writing within six years from the end of the year of assessment. The Bill will close the loophole whereby it was possible to pay special remuneration for a year more than six years back and so avoid assessment on the recipient. The time limit for assessment is (except in the case of a deceased person) to be six years after the end of the year of assessment in which the payment is made.

Schedules A and E
A clergyman or minister of religion who by virtue of his office lives in a house that belongs to him as an incumbent, or is owned by his church, is to be treated as though he were a representative occupier, so that income tax will not be payable on its annual value or on any expenses reimbursed in connection with the residence (except those applicable to a portion for which he receives rent). If the clergyman or minister spends money on maintenance, repairs, insurances or management of such a residence, he will be allowed as a deduction from his income an amount which, together with any amount allowed under Section 479 (1) of the Income Tax Act, 1952, is equal to one-quarter of the amount of the expenses.

Industrial and Provident Societies
Returns of share and loan interest will be necessary where the combined amount paid to a person exceeds £15. (Hitherto interest on shares was not included and the limit for interest on loans was £5.)

Compensation from Federal Germany
With retrospective effect, compensation payments made by the Government of the Federal Republic of Germany to victims of Nazi prosecution are to be exempt from United Kingdom taxation. Claims for repayment of tax can be made not later than April 5, 1967.

Pension funds
Tax relief is to be given on certain income arising to pension funds set up in this country for employees working overseas, so as to make the funds exempt to the same extent as if they were income of a person not domiciled, ordinarily resident, or resident in the United Kingdom.

Double taxation relief
Legislation is to remedy the anomaly in the computation of double taxation relief (shown in the *I.C.I.* case) which arises where, as in the opening years of a business, the same income forms the basis of more than one year's assessments.

Unilateral relief is to be extended so as not to exclude oversea tax imposed by provinces, states or other parts of non-Commonwealth territories, or municipalities or other local bodies.

Double taxation agreements are to be allowed to include credit for oversea tax which would have been payable but for special reliefs given overseas to promote industrial, commercial, scientific or other development.

Investment allowances on ships
In response to a request by the General Council of British Shipping, the Chancellor said he saw no prospect of the special investment allowance for shipping (40 per cent.) being withdrawn or reduced in this Parliament.

Capital allowances on cars used for trade, profession or employment
Capital allowances will be limited to a maximum outlay of £2,000 per vehicle. Any excess of cost over £2,000 will not rank for relief. There are provisions for apportionments where relevant. The new provision applies also to capital allowances in management expenses claims and maintenance claims. It does not affect vehicles provided for hire to or carriage of members of the public in the ordinary course of a trade, or expenditure incurred before April 17, 1961. The Chancellor announced that the annual value of the use of a car is to be taken as 12 per cent. of the original cost (or, presumably, of £2,000 if lower) instead of 9 per cent.

Expenses allowances
Legislation is threatened for next year if abuse of expenses and other benefits does not diminish. The recommendation of the Royal Commission to ignore so-called "home saving" while travelling is to be adopted, but more detailed information regarding expenses is to be required from the employer. The Inland Revenue is to issue a leaflet showing the rules it follows in dealing with directors' and other benefits. The cost of hiring cars will be limited proportionately if the retail price of the car when it was hired was over £2,000.

PROFITS TAX

The rate is increased to 15 per cent. from April 1, 1961. This will lower the amount expected to be paid in dividend to avoid surtax directions.

SURTAX

The rates of surtax for 1960/61 and 1961/62 are to be the same as those for 1959/60. Earned income relief is to be allowed for surtax as a deduction from total income. In addition, there will be allowed a further "earnings allowance" of £2,000 or such smaller amount as will reduce the earned income (after deducting the earned income allowance) to £2,000.

These allowances start for 1961/62, so will affect the surtax payable on January 1, 1963, for the first time.

Illustration (1)

	£	£
Single person, income all earned		6,000
Earned income allowance (E.I.A.)		
$\frac{2}{9} \times$ £4,005 =	890	
$\frac{1}{9} \times$ £1,995 =	222	
Earnings allowance (E.A.)	2,000	
		3,112
		2,888

	£	s.	d.
£500 at 2s. 0d. =	50	0	0
£388 at 2s. 6d. =	48	10	0
1961/62 Surtax	98	10	0

For 1960/61, the surtax would have been 787 10s. 0d.

Illustration (2)
Married couple with one child not over 11:

	£	£	£
Earned		3,000	
Unearned			3,000
E.I.A.	667		
E.A.	333		
		1,000	
			2,000
			5,000
Personal allowance (P.A.) (£240–£140)		100	
Child		100	
			200
			4,800

	£ s. d.
£500 at 2s. 0d.	50 0 0
£500 at 2s. 6d.	62 10 0
£1,000 at 3s. 6d.	175 0 0
£800 at 4s. 6d.	180 0 0
1961/62 Surtax	467 10 0

(1960/61 £732 10s. 0d.)

The maximum deduction will be where the earned income is £9,945 or over, namely, E.I.A. £1,550, E.A. £2,000, giving a deduction of £3,550 in addition to any allowable personal allowances.

Illustration (3)
Married couple with child allowances of £325:

	£	£
Income earned		10,000
Unearned		2,000
		12,000
E.I.A.	1,550	
E.A.	2,000	
P.A. and child allowance	425	
		3,975
		8,025

1961/62 Surtax £1,446 17s. 6d.
(1960/61 £2,856 17s. 6d.)

Where the earned income is under £2,573, only the E.I.A. will apply, since the earnings allowance cannot reduce the earned income to less than £2,000.

Illustration (4)
Single persons:

	A £	B £	C £
Earned income	2,572	1,800	3,600
E.I.A.	572	400	800
	2,000	1,400	2,800
Earnings allowance	—	—	800
	2,000	1,400	2,000
Unearned income	300	900	300
	2,300	2,300	2,300
£300 at 2s.	£30	£30	£30

The full deduction for the earnings allowance is reached at an earned income of £5,001.

Illustration (5)

	£	£
Earned income	—	5,001
E.I.A. (£4,005)	890	
E.I.A. (£996)	111	
		1,001
		4,000
E.A.		2,000
		2,000

The surtax on earned income is therefore the same

Estimated Effect of Changes in Taxation

	Estimate for 1961/62 £ million	Estimate for a full year £ million
INLAND REVENUE		
Income Tax—		
Increase of flat rate allowances for National Insurance contributions	−12	−15
Exemption of German compensation payments	— ½ (*a*)	— ½
Surtax—		
Allowance of the earned income relief	—	−46 (*b*)
Introduction of an earnings allowance of up to £2,000	—	−37 (*c*)
Income Tax and Profits Tax—		
Limitation of capital allowances on ordinary motor cars	—	+ 3 (*d*)
Profits Tax—		
Increase of rate from 12½ per cent. to 15 per cent.	+ 1½	+70 (*e*)
Stamp Duties—		
Abolition of *ad valorem* stamp duty on bills of exchange and promissory notes and replacement by a fixed duty of 2d.	− 1	− 1½
TOTAL INLAND REVENUE	−12	−26½
CUSTOMS AND EXCISE		
Customs—		
Hydrocarbon oil	+47½	+49½
TOTAL CUSTOMS	+47½	+49½
Excise—		
Hydrocarbon oil	+ ½	+ ½
Television advertisement	+ 7	+ 8½
Pool betting	(*f*)	(*f*)
TOTAL EXCISE	+ 7½	+ 9
TOTAL CUSTOMS AND EXCISE	+55	+58½
MOTOR VEHICLE DUTIES	+25	+26
TOTAL	+68	...

(*a*) £½ million of the cost in 1961/62 relates to the tax of previous years which will have to be repaid. In addition there is £1½ million of income tax in suspense for earlier years which will not now be collected.
(*b*) The cost in 1962/63 will be £32 million.
(*c*) The cost in 1962/63 will be £26 million.
(*d*) The yield in a full year is made up of £2 million income tax, £1 million profits tax. The yield in 1962/63 will be £1 million income tax.
(*e*) The yield in 1962/63 will be £45 million.
(*f*) Not ascertainable.

Summary of Estimates, 1961/62

After Budget changes

Above the Line

Revenue	£ million 1960/61 Outturn	£ million 1961/62 Estimate
Inland Revenue:		
Income Tax	2,433	2,728½
Surtax	190	210
Death Duties	236	240
Stamps	90	94
Profits Tax, Excess Profits Tax and Excess Profits Duty	263	325½
Total Inland Revenue	3,212	3,598
Customs and Excise	2,390	2,510
Motor Duties	126	155
Total Tax Revenue	5,728	6,263
Other Revenue	206	245
Total Revenue	5,934	6,508

Expenditure	£ million 1960/61 Outturn	£ million 1961/62 Estimate
Consolidated Fund Services	798	815
Supply: Defence	1,596	1,656
Civil	3,393	3,531
Total Supply	4,989	5,187
Total Expenditure	5,787	6,002
Surplus	147	506

Below the Line

Total Receipts	428	514	Total Payments	969	1,089
Net Payments	541	575			
	969	1,089			

	£ million 1960/61 Outturn	£ million 1961/62 Estimate
Surplus Above the Line	147	506
Net Payments Below the Line	541	575
Borrowing Requirement	394	69

amount (nil) for incomes between £2,573 and £5,001 (inclusive). Between these limits surtax will be payable on the unearned income only less the appropriate personal allowances.

In the case of a non-resident entitled to allowances, the earned income allowance and the earnings allowance will abate, along with the other allowances, to the proportion that the U.K. income bears to his world income.

Where husband and wife claim separate assessment, the allowances will be shared in proportion to their respective earned incomes. Should the income of one spouse be inadequate to cover the allowances, the excess of the allowances will be given to the other spouse. The personal allowances which have to be shared will be divided in proportion to their respective total incomes as reduced by the earned income and earnings allowances.

SURCHARGES ON EMPLOYERS

The Treasury is to be given power to levy a surcharge on employers in the period between the passing of the Finance Act, 1961, and March 31, 1962, of not exceeding four shillings per week per employee. The surcharge will be collected with the National Insurance contributions. A resolution of the House of Commons will be necessary to validate any order in respect of a surcharge.

E.P.T., E.P.L., AND SPECIAL CONTRIBUTION

Terminal date for making assessments to Excess Profits Tax (E.P.T.), Excess Profits Levy (E.P.L.) and Special Contribution

With specified exceptions, no assessment to any of these taxes is to be made after the passing of the Finance Act, 1961, except for the purpose of making good to the

Crown any loss of tax, levy, or contribution shown to be attributable to fraud or wilful default committed in connection therewith or in relation to income tax. The exceptions are in connection with enemy debts, etc., written off for E.P.T. during the war (Section 39, Finance Act, 1950) and unremittable oversea income for E.P.L. (Section 21 (2) Finance Act, 1953). Error or mistake claims for E.P.T. under the Fifth Schedule to the Finance (No. 2) Act, 1945, and for E.P.L. under Section 63 of the Finance Act, 1952, will have to be made within six years after the making of the assessment. Appeal can be made within 30 days after the passing of the Finance Act, 1961, against any assessment to E.P.T., E.P.L. or special contribution made in 1961 and before the passing of the Act.

STAMP DUTY

As from August 1, 1961, the stamp duty on any bill of exchange or promissory note is to be twopence and can be denoted by an adhesive stamp.

Borrowing of stock by dealers

As from August 1, 1961, if a jobber or other dealer borrows stock from a person who is not a dealer in order to enable him to fulfil a contract, the initial transfer to the borrower or his nominee is to attract a stamp duty of ten shillings only. If the stock is returned to the original transferor within two months, it will come under Section 42 (2) of the Finance Act, 1920, and the transfer need be stamped with ten shillings only.

Taxation Danger Points—III

Company Reconstructions

PROPOSITIONS FOR GETTING accumulated profits out of a private company without attracting surtax are often put up to accountants, but fail to satisfy them when examined. A recent suggestion involved the voluntary winding up of the company and the simultaneous formation of a new company with a small share capital to take over the assets and liabilities, the balance of the consideration in excess of the share capital being left as secured loans from the shareholders. At first sight, this might appear attractive, but it is the reverse. It runs straight into Section 246 of the Income Tax Act, 1952, and any amounts applied in repayment of the loans are deemed to be available for distribution, but dividends could still be negotiated, though of higher amount than might otherwise have been required. There is also the possibility of a direction on the profits of the vending company, which by the terms of the problem cannot have been the subject of a clearance for surtax. All this is quite apart from any rights of the Revenue under the Finance Act, 1960, Section 28.

Section 17, Finance Act, 1954

At one time it was often possible, owing to the discontinuance and new business rules, to reduce the tax bill by reconstructing a company. This is no longer the case if the new company will be under the same control as the old company, that is, if immediately before the change and on or at any time within two years after the change the trade or an interest amounting to not less than a three-fourths share in it belongs to the same persons as the trade or interest belonged to at some time within a year before the change. For this purpose, the trade or interest in it is regarded as belonging to the persons owning the ordinary share capital—that is, all issued share capital except shares carrying a fixed rate only (or a fixed rate free of tax)—in proportion to their holdings in that capital. Close relatives are treated as one person; so are the persons from time to time entitled to the income under any trust (Section 17, Finance Act, 1954.)

Section 17, Finance Act, 1954, provides that a change of the type mentioned in the preceding paragraph shall not be treated for any of the purposes of the Income Tax Acts as a permanent discontinuance, or as the setting up and commencement of a new trade. It is now, therefore, possible to reconstruct a company knowing that most income tax considerations can be ignored. Subject to the dividend stripping provisions of Section 19 of the Finance Act, 1958, losses and capital allowances can be carried forward under Section 342 of the Income Tax Act, 1952, and under Section 15 of the Finance Act, 1953. But if a loss is being carried forward for profits tax purposes it must be noted that Section 17 does not apply to profits tax, so the new company will get no relief for the loss.

The terms of Section 55 of the Finance Act, 1927, as amended by Section 41 of the Finance Act, 1930, should be studied, as compliance with these terms will save the stamp duty on share capital and on any deeds, etc., required to give effect to the reconstruction.

Since income tax includes surtax, there should be no surtax repercussions if the reconstruction is within Sec-

tion 17, even if the company is controlled for surtax purposes.

It should be emphasised that Section 17 applies to any trade carried on by a company whether alone or in partnership. So, although the rubric of the Section says: "Company reconstruction, etc., without change of ownership," it does not apply only to reconstructions. If the original company were to transfer a trade to its shareholders (or to at least 75 per cent. of those owning the ordinary share capital), the Section would apply. The reverse does not apply, so that a sole trader or partnership forming a company to take over his or its business cannot carry on on the previous year basis. He can get round this, however, by going into partnership with the new company for a time and giving the necessary notices under Section 19 of the Finance Act, 1953, on each change of ownership.

If a company is in partnership when it transfers a trade to individuals in partnership and a partner in the first partnership retires at that time, the outgoing partner's share in any loss cannot be carried forward (Section 19, Finance Act, 1953). A terminal loss claim can be made only on discontinuance or where assessment is made as on a discontinuance, and the benefits of Section 17 of the Finance Act, 1954, may be outweighed by the loss in this direction. If there is a discontinuance within twelve months after the change, however, a terminal loss claim can be made for periods before the change (Schedule III, para. 5 (1), of Finance Act, 1954.)

Sale of Part of a Business

Where a trade which has not been assessed separately (as may happen with branches) is sold, but the remainder of the business is retained, the necessary apportionments are to be made. This could be a method of selling a branch without retaining its profits in the computation of the vending company for years of assessment after the date of sale, unless Section 28 of the Finance Act, 1960, were to apply.

Estate Duty Aspects of Reconstructions

An exchange of shares on a reconstruction will not apparently adeem a specific legacy of shares in the original company so long as the new shares represent substantially the same interests as those given by the will (cf. *Re Slater* [1907] 1 Ch. 665; *Re Kuypers* [1925] Ch. 244; and *Turner* v. *Leeming* [1912] 1 Ch. 282), but it would be as well if a shareholder who had given shares in the original company as a specific legacy were to make a codicil to his will to make the matter clear.

For estate duty purposes, a gift *inter vivos* of the old shares would, if the donor were to die within five years of the gift, be deemed to be a gift of the new shares, since there has been an exchange for full consideration.

Taxation Notes

Total Income for Surtax

Finance Acts provide that income tax, "in the case of an individual whose total income exceeds £2,000, shall be charged in respect of the excess" at higher rates in the pound. This is the surtax. There is an inconsistency here, because Section 14 of the Finance Act, 1957, provides that, for the purpose of charging surtax for the year 1956/57 and any subsequent year of assessment, there shall be deducted from the total income the amount of certain personal and similar reliefs in so far as they exceed the single person's allowances. Now, for 1961/62, there is to be deducted from total income the earned income allowance and an earnings allowance which will reach a maximum of £2,000. Surtax is therefore no longer payable on the excess of the total income over £2,000, but on the excess of the taxable income (as calculated for surtax) over £2,000. The total income is unaffected by the allowances in point; this is important in considering the effective rate of surtax for the purposes of double taxation relief.

Apportionment in Completion Statements

A letter in the *Law Society's Gazette* for April, 1961, raises an interesting point regarding income tax on apportioned ground rent on the sale of a leasehold house or chief rent, or of a freehold house which is subject to such a rent. In completion statements it is common for the apportionment to take the deduction of tax into account. The example given is as follows:

	£	s.	d.
Ground rent from 24/6/60 to 11/11/60=140 days at £6 per annum	2	6	0
Less tax		17	10
	1	8	2
Schedule A tax from 5/4/60 to 11/11/60=221 days at £2 6s. 6d. per annum ..	1	8	1

The figures are based on ground rent of £6 per annum payable half-yearly on June 24 and December 25, Schedule A tax being collected only on an amount equal to the ground rent at 7s. 9d. in the £.

The writer of the letter points out that the new owner will have to pay the tax of £2 6s. 6d. on January 1, 1961, but will have recouped from the ground rent paid on December

25, 1960, only £1 3s. 3d. and from the vendor (£1 8s. 1d. less 17s. 10d.=) 10s. 3d., leaving him 13s. out of pocket. The vendor has allowed the purchaser in the completion statement the 10s. 3d. shown above, but has recouped £1 3s. 3d. from the June ground rent, leaving him 13s. in pocket.

The letter suggests that the vendor should allow to the purchaser the tax deducted from the June ground rent and should not make any deduction of tax from the ground rent accrued to the date of completion, so that the purchaser would not be out of pocket.

The real root of the matter is that the apportionment of Schedule A tax has to be on a day-to-day basis, whereas annual payments are not apportionable for income tax purposes. The June payment is an annual charge of the vendor and the December payment an annual charge of the purchaser. On the facts given, these are kept in charge by Schedule A assessment. As a result, the vendor accounts for the £1 3s. 3d. deducted in June by allowing the purchaser that amount as Schedule A tax; but, owing to the apportionment of the Schedule A assessment, the full Schedule A tax allowed is 4s. 10d. more. The matter would be put right if 4s. 10d. were deducted from the accrued ground rent instead of 17s. 10d. It is to the extent of 4s. 10d. only that the vendor has suffered tax on accrued ground rent included in the completion statement. It will be surprising if any attempt is made to meet such difficulties, where the sums involved are rarely significant.

Clitas

Release No. 62 in the *Current Law Income Tax Acts Service*, dated March 1, 1961, brings volumes I and II up to date in all sections. It includes supplementary tables of statutes and cases and a new index. The Digest of Cases includes the High Court decision in *Imperial Chemical Industries v. Caro* [which has now proceeded to the House of Lords]; the decisions of the House of Lords in *Unit Construction Limited v. Bullock* (subvention payments), *Hochstrasser v. Mayes* (loss on sale of residence reimbursed by employers) and *Abbott v. Philbin* (which stated that options were to be valued at the date of the option, not when the option was exercised); and the Court of Appeal decision in the *Duple Motor Bodies Limited v. Ostime* case, which has now been approved by the House of Lords (see ACCOUNTANCY, April, page 194). The list of the Extra-statutory Concessions has been revised and the further double taxation agreements with Norway and Iran included.

Release No. 63, dated April 19, 1961, brought to subscribers a copy of the Budget Resolutions affecting income tax, surtax and profits tax, and a commentary presenting in clear, concise language the effect of each Resolution, with appropriate extracts from the Chancellor's speech and from the White Paper.

Once again, we congratulate the publishers on bringing up to date this very useful service.

Management Expenses

If the management expenses of an investment company plus any annual payments exceed the company's income, it is the official view that a Section 170 (Income Tax Act, 1952) liability arises. This seems to be the reasonable interpretation of Section 425 of the Act. The management expenses have not been charged in calculating income and are allowed by a special claim.

Illustration:

	£
Company's income 1960/61	10,000
Management expenses ..	9,000
	1,000
Annual payments ..	3,000
Section 170 liability on ..	2,000

The result is that the company is repaid:	£	s.	d.
Tax on £9,000 at 7s. 9d.=	3,487	10	0
Less: Section 170 liability £2,000 at 7s. 9d.	775	0	0
Repayment	2,712	10	0
The company suffers:			
£1,000 at 7s. 9d.= ..	387	10	0
Under Section 170, £2,000 at 7s. 9d. ..	775	0	0
	1,162	10	0

This amount the company deducts from the annual payments.

At that stage, the company is all square. Had the company been carrying on a trade, it could have carried forward the amount liable under Section 170 for relief under Section 345; but the latter Section does not apply to an investment company, so no relief can be obtained.

Had the management expenses in the above illustration been £12,500, the Section 170 liability would have been on £3,000, the tax being collected by restricting the repayment to tax on £7,000. The amount of unrelieved management expenses to be carried forward and added to the following year's expenses would be restricted to £2,500, the excess of the expenses over the income.

This is an anomaly that ought to be put right.

Settlements and Taxation—Family Companies

In reply to a query by a reader, Mr. P. W. E. Taylor sends us the following additional note to his paper "Settlements and Taxation," published in ACCOUNTANCY for February and March, 1961. This should be read in conjunction with the concluding part of the paper (March, pages 146–7):

Section 66 of the Finance Act, 1960, does not abolish the general principle that shares and debentures falling within Section 55 of the Finance Act, 1940, are to be valued on the net assets basis. It merely moderates in certain cases what would otherwise be the net assets valuation, though the result may be that there will be fewer cases where the Section 55 valuation is very markedly greater than the market value of the holding of shares or debentures concerned. Put briefly, the principal effect of Section 66 is to require the assets to be valued on the basis of a sale of the assets to a going concern which is to continue to use those assets. Thus, where the assets of a company are all profitably employed in its business, the valuation will be near enough the same as before the 1960 Act. On the other

hand, where the assets have a greater break-up value than going-concern value, Section 66 will have a substantial effect. Moreover, a company holding some assets which would be more profitably employed in some other way than in the company's business may find its shares more lightly valued in consequence of Section 66.

The value of a shareholding which controls the company but cannot on its own either wind up the company or alter the Articles of Association—that is, supposing the company to have one class of share, the value of a holding of between 50 and 75 per cent. (exclusive)—may still be different under Section 55 from what it would be if Section 55 did not exist and the market value of the shareholding under Section 7 (5) of the Finance Act, 1894, had to be found. The "controlled" companies to which Section 55 applies will usually have in their articles restrictions on the transfer of shares, and possibly on the distribution of dividends. These will have some effect in reducing a Section 7 (5) valuation, when they might not reduce one under Section 55.

An unfortunate omission occurred on page 146 of the March issue. What appears as the last sentence of the first paragraph under "Family Companies" should read:

Such non-voting shares would, if retained, attract the main estate duty liability, but they will be settled or given away by the settlor. The retained controlling shares are unlikely to have attributed to them more than a small proportion . . .

Double Taxation—Pakistan

A Double Taxation Agreement between Pakistan and the United Kingdom has been signed, and the text will be published shortly by H.M. Stationery Office.

The Agreement relates to taxes on income. It is expressed to take effect in the United Kingdom from April 6, 1960, when the previous agreement ceased to have effect, but it requires the approval of the House of Commons.

Recent Tax Cases

Income Tax

Divorce — Maintenance — Set-off — Debt owing from wife to husband—Husband ordered to pay to wife by way of maintenance annual sum "less tax"—Debt owing from wife to husband to be set off against maintenance by instalments not exceeding "amount . . . awarded" to her for maintenance—Whether "amount awarded" gross annual sum or annual sum after deduction of income tax—Married Women's Property Act, 1882, Section 17—Income Tax Act, 1952, Sections 169, 221—Debtors Act (Matrimonial Causes) Jurisdiction Order, 1932.

In **Butler v. Butler** (Court of Appeal, 1961, T.R. 19) a husband and wife, who had separated, agreed that the wife should purchase the husband's interest in certain properties for £610, of which £150 should be paid forthwith to the husband. By an order of the Queen's Bench Division made by consent in proceedings under Section 17 of the Married Women's Property Act, 1882, the remainder of the purchase price was to be "set off by instalments not exceeding such amount as may be . . . awarded to the (wife) by way of . . . maintenance." The wife obtained a decree absolute of divorce, and an order for maintenance was made in the Divorce Division for the husband to pay her "£200 per annum less tax." The husband gave the wife tax deduction certificates for £85 each year and credited her with £115 a year against the debt of £460. In 1960 the wife claimed arrears of maintenance from the husband, and contended that the amount to be set off every year against her debt was £200, and that she had thus discharged her debt. The husband contended that the amount to be credited to her each year was £115.

Pearce, L.J., said that by virtue of Section 169 (1) of the Income Tax Act, 1952, the wife had to allow the husband an annual deduction of £85 out of the £200 which was to be paid to her, and by reason of Section 221 of the Act, whatever the position of the husband, he could not obtain any benefit from the £85 which he deducted. As the husband duly gave the wife tax certificates purporting to make the tax deductions at the time when the money would, apart from the set-off, have been due, no such difficulty arose in his way as arose in *Taylor* v. *Taylor* [1937] 3 All E.R. 571. Collingwood, J., had held that the amount awarded to the wife by way of maintenance was £200 per annum and that that was the amount that was to be credited against the balance of £460 due from the wife, the result being the same whether the order was made less tax or was silent as to tax. Pearce, L.J., on the other hand, said that the words of the order were "£200 less tax" and the order must be read as saying that the liability of the husband in respect of actual payments to the wife in any year was limited to £115. The balance of £85 the husband had to pay to the Revenue, and so long as he did not fail to pay the wife sums amounting in the year to £115 it could not be suggested that he was failing to comply with the maintenance order. It was impossible to arrive at the conclusion of Collingwood, J., without ignoring the words "less tax" which occurred in the order. Moreover, the only reasonable construction of the words "amount . . . awarded to the (wife)" was that they meant the amount which under any order the husband would have to pay in cash to the wife, and that they did not include any deductions which he must pay to the Revenue. So read, the bargain made between the parties on which the order was founded was sensible and just and in accordance with the Income Tax Acts. Harman, L.J., said it seemed clear that the wife could not be relieved of her debt at the rate of £200 a year when, in fact, the husband owed her only £115 and the

Revenue £85. Davies, L.J., agreed and the Court allowed the appeal.

Income Tax

Relief from double taxation—Dividend stripping — Person entitled under any enactment to exemption from income tax —Company resident in Republic of Ireland — Effect to be given to plain words of statute notwithstanding international treaty—Finance (No. 2) Act, 1945, Section 52—Income Tax Act, 1952, Section 349, Schedule XVIII, Parts I, III, paragraph 4 (1)—Finance (No. 2) Act, 1955, Section 4 (2).

The facts in **Collco Dealings Ltd. v. C.I.R.** (House of Lords, 1961, 1 All E.R. 762) were noted in ACCOUNTANCY for November, 1959 (pages 612–13), and the case was again referred to in our issue of May, 1960 (pages 286–7), following the decision of the Court of Appeal. The House of Lords has now affirmed the decision of the Court of Appeal for the same reasons as were given by that Court when it upheld the judgment of Vaisey, J. The matter in dispute, namely, whether the appellants were entitled to recover tax under Section 349 of and Part I of Schedule XVIII to the Income Tax Act, 1952, notwithstanding Section 4 (2) of the Finance (No. 2) Act, 1955, has now been put beyond doubt (apart from the decision of the Lords) by Schedule VII to the Finance Act, 1959, while the period of six years referred to in Section 4 of the Act of 1955 has been abolished by Section 31 of the Finance Act, 1960. In other words, dividend stripping has itself been stripped of much of its former profitability.

Income Tax

Additional assessments — Assessments discharged—Further additional assessments—Whether these assessments competent—Whether agreement by correspondence—Income Tax Act, 1842, Sections 126, 130—Taxes Management Act, 1880, Section 57 (10)—Finance (1909–10) Act, 1910, Section 66 (2)—Income Tax Act, 1918, Sections 125, 133 (2)—Income Tax Act, 1952, Sections 41, 50 (2), 510.

In **Cansick (Murphy's Executor) v. Hochstrasser** (Ch. 1961, T.R. 23) the deceased was assessed for 1945/46 to 1948/49 in the amounts of £749, £965, £715, and £344 respectively. In November, 1948, additional first assessments were made upon him in respect of 1945/46 to 1947/48 in the amount of £50 each. On appeal to the Special Commissioners these additional assessments were discharged. On some date in 1955 further additional assessments were made in respect of 1945/46 to 1948/49 in the sums of £500, £500, £300 and £300. The deceased appealed against these assessments to the General Commissioners, who varied them: for 1945/46 to nil; for 1946/47 to £1,000; for 1947/48 to £1,000, and for 1948/49 to £500. The deceased died in 1956. On appeal by way of case stated it was contended on behalf of the appellant that (i) in respect of 1945/46, 1946/47 and 1947/48, as additional assessments were made in 1948, there was no power to make the further additional assessments under appeal; (ii) that in respect of 1946/47 and 1947/48 the income in question was finally determined as the result of the appeal against the original additional assessments, and that that position could not be varied by any further assessment or by any further decision of the General Commissioners; and (iii) that the extent of the taxpayer's liability in relation to the further additional assessments that were the subject matter of the present appeal was covered by an agreement by correspondence between the taxpayer's accountant and the Inspector of Taxes which fell within Section 510 of the Income Tax Act, 1952.

Buckley, J., said that the first point turned upon the construction of Section 125 of the Income Tax Act, 1918 (now Section 41 of the Act of 1952). It was contended for the taxpayer that the statutory language was appropriate only to apply to one additional first assessment in respect of any one year of charge under any one Schedule, but it seemed to his Lordship that the words "if the Surveyor discovers" were perfectly capable of extending to more than one discovery in respect of one year and in respect of one Schedule, as the words "in every such case" indicated that the Section was intended to operate if and whenever the Surveyor made a discovery.

The second point turned upon the terms of Section 133 (2) of the Act of 1918 (now Section 50 (2) of the Act of 1952). It was argued that the function of the Special Commissioners when considering the appeals against the first additional assessments was to determine the amount of the taxpayer's income chargeable to tax under Schedule D for each of the two years 1946/47 and 1947/48; and that by discharging the two additional assessments relating to those two years the Commissioners determined the amount of the taxpayer's chargeable income in respect of those two years, and in the terms of the sub-Section their decision was final and was not to be altered. Buckley, J., said that the decision of the Special Commissioners was one which could not have been challenged with regard to the particular subject with which they were concerned—that is, whether the additional assessment of £50 in respect of each of the years 1945/46 to 1947/48 was justified or not upon the facts as then known to them. But it was conclusive on that matter and that matter only. Since then further matters had come to the notice and attention of the Inspector. He had seen further accounts of the taxpayer's business, and there had been a further discussion of the position with the taxpayer's accountant. On those new facts it was open to the General Commissioners to make a further additional assessment in respect of the years in question.

The third point was whether the correspondence between the Inspector and the accountant disclosed an agreement within Section 510 of the Act of 1952. In one letter to the accountant the Inspector said he thought it would be as well to ask the taxpayer "to complete an assets statement as at the present date." Nearly four years later the accountant asked the Inspector to let him know "how you suggest the additional profits of £400 should be spread over the various years of assessment." In reply the Inspector suggested that the "additional profits of *say* £400" should be allocated at the rate of £100 for each of the four years 1945/46 to 1948/49, and to this letter the accountant replied agreeing to the suggested spread-over. His Lordship said that, whether or not it was necessary to find between the parties an agreement of a strictly contractual nature, there must at least be found for the purposes of the Section an offer and an acceptance of defined terms. He did not think that the Inspector intended himself to be taken as putting forward a firm offer of settlement. He had asked for the assets statement; he had referred to additional profits of "*say* £400," and the letter suggesting that the £400 should be spread over four years was not written with a view to altering his position but to elucidate the sort of terms upon which he thought that the matter might be satisfactorily negotiated. Accordingly, the General Commissioners were right in their conclusion that there was no such agreement as to satisfy the terms of Section 510.

Clearly this last part of the judgment contains an important moral—to endeavour to reduce a satisfactory basis of settlement to contractual terms as quickly as possible.

Tax Cases—Advance Notes

COURT OF APPEAL (Pearce, Upjohn and Donovan, L.JJ.)

C.I.R. v. Rolls-Royce Ltd. April 26, 1961.

Their Lordships unanimously allowed this appeal by the Revenue from the decision of Pennycuick, J. (See ACCOUNTANCY for August, 1960, pages 469–70.) Leave to appeal to the House of Lords was granted.

CHANCERY DIVISION (Buckley, J.)

Montague L. Meyer Ltd. and Canusa Ltd. v. Naylor. March 14, 1961.

The second appellant company had a French subsidiary which was a *société à responsabilité limitée*, and its day to day business was carried on by a *gérant*, a type of manager required by the French law. The *gérant* delegated his powers, *inter alia*, to a director of the first appellant company. This director, purporting to act on behalf of the *société à responsabilité limitée*, concluded an agreement with the second appellant company, that that company should make a subvention payment on account of a loss made by the *société à responsabilité limitée*. The company claimed that it was allowed a deduction on account of this payment by virtue of Section 20 of the Finance Act, 1953. It was originally contended by the Revenue that the *société à responsabilité limitée* was not resident in the United Kingdom, as Section 20 (9) of the 1953 Act requires. This point was not pursued on the appeal, but judgment was none the less given in favour of the Revenue on the ground that the director concerned had no formal authority to enter into the agreement on behalf of the *société à responsabilité limitée*, and that there was therefore no sufficient contract between it and the second appellant company for the purposes of the Act.

Henty and Constable (Brewers) Ltd. v. C.I.R. March 21, 1961.

The appellant company, in exchange for an issue of its own shares, acquired all the shares in another company from that company's shareholders. The take-over agreement provided that the consideration did not include anything on account of the second company's licensed premises, and that the appellant company should give irrevocable authority for these premises to be made over to the vendors. Later the appellant company put the second company into liquidation, and the vendors gave to the liquidator authority to transfer the premises to the appellant company. On this ground the Revenue contended that the conveyance by the liquidator was a conveyance on sale by the beneficial owners, but the Court decided that it was no more than a conveyance by the liquidator to the persons entitled in the liquidation, properly stamped at 10s.

Ridge Nominees Ltd. v. C.I.R. March 23, 1961.

A company made an offer to the stockholders of another company to acquire their stock. The offer was conditional until it had been accepted by the holders of 90 per cent. of the issued stock, when it became unconditional. The stock was to be transferred to a third company, which was the appellant. After the offer became unconditional a stockholder who had held out was obliged to have his stock compulsorily transferred under Section 209 (3) of the Companies Act, 1948. The appellant company contended that not only this transfer, but also the transfers of the stock belonging to holders who had accepted the offer while it was still conditional, were to be stamped not *ad valorem* as conveyances on sale, but at 10s. The Court held, however, that only the transfer under Section 209 could be stamped at 10s.

Prince v. Phillips. March 23, 1961.

The appellant taxpayer had two sons who had started to work in the middle of the fiscal year 1957/58, and each had in that year earned more than £100. The appellant contended that he was not disqualified from the children's allowances for either son by Section 212 (4) of the Income Tax Act, 1952, for the reason that for a part of the year neither son was earning at a rate exceeding £100 per annum. It was further contended that for the younger son a deduction, which in any case would have reduced his income to a figure less than £100, should be allowed on account of the cost of travelling to work and a mid-day meal. On both these points the Court affirmed the decision of the General Commissioners in favour of the Revenue.

Crabb v. Blue Star Line Ltd. March 24, 1961.

The respondent company, having insured against the late delivery of some ships which it had ordered, received certain sums under the policies for ships which were in fact delivered after the agreed date. It was contended by the Revenue that these sums were no more than compensation for the earnings lost by the respondent company through not having the ships on time, and that they were therefore of the nature of income. The respondent company said that on other occasions the shipbuilders had agreed to a reduction in price in the event of delay, and that the sums received under the insurance policies were no more than equivalent to such a reduction in price. The Court held that in the circumstances the payments were of this nature, and the decision of the Special Commissioners in favour of the respondent company was upheld.

COURT OF CRIMINAL APPEAL (Hilbery, Stevenson and Howard, JJ.)

Regina v. Soul. April 18, 1961.

The appellant made arrangements to the effect that certain innocent persons should combine with him to have returns made to the Revenue in their own names of income from property to which they were not beneficially entitled. The result of these arrangements was that the income from the property appeared to the Revenue to be that of divers different persons, all of whom were entitled to considerable income tax reliefs. The appellant was prosecuted, and at his trial the jury was directed to consider whether the arrangements made by the appellant were intended to transfer the legal and beneficial estates in the properties, or whether they were no more than a device to defraud the Revenue. The appellant was convicted, and on his appeal it was held that the proper question had been put to the jury, and that his conviction should therefore be upheld.

The Month in the City

Post-Budget Markets

Reports of an early improvement in the United States, coupled with a considerable recovery in the value of sterling, may perhaps have been responsible for the rise in industrial ordinary shares in April. Business in options reached a new high level. Some of the advance in equities was based on the expectation that the new Trustee Act would encourage a good deal of switching into this type of security, while a number of excellent company results also helped. The arrival of several new issues did not appear to have reduced the demand for existing shares.

The considerable rally in the Funds and other fixed interest stocks following the Budget was quite natural. But it might have been supposed that a measure which imposed a heavy added burden on company profits this year and next, and which contained powers to add substantially to costs through the two new "regulators," might have given buyers of industrial equities pause. Yet it was only after new high figures had been established for the leading indices that profit taking caused a temporary setback; and this was followed by a new wave of buying, bringing new records at the end of the month. Of course, if buyers of ordinary shares are looking well ahead and if they share the belief of the Chancellor that his measures will stimulate production and exports, they may well be justified in buying at current prices. This would also explain the fact that the Funds stood, at end-April, at the highest since January. But a rise of less than two-thirds per cent. in the Funds compares oddly with one of almost 6 per cent. in the index of ordinary shares—admittedly a rather restricted sample. The whole market suffered a sharp reverse on the Algerian incident but, while fixed interest did not fully recover from this, equities went ahead even faster.

New Issue Points

The rally in the Funds, coupled with the fact that Mr. Selwyn Lloyd does not expect to have to raise money from the public this financial year, no doubt accounts for some speeding up in the passage of loans of trustee status—by existing standards—through the turnstile. At the end of the first week *Stirling* announced an issue of £5 million in 6 per cent. 15-year stock at 99, and three weeks later *Glasgow* invited subscriptions to a £10 million issue with a slightly shorter life on similar terms. This proved unattractive and 77 per cent. was left with the underwriters, but there was a fair demand for the stock at a half point discount.

The famous sale of a small block of shares in *Penguins* found demand 150 times the supply; *Stewarts and Lloyds* is giving a two-for-nine rights offer at 44s.; *I.C.F.C.* is to issue for *W. D. Evans Golden Produce* £6 million in 6¼ per cent. debentures at 97 with a life of 23 years; the terms of an issue of £15 million in debentures and ordinary shares by *B.I.C.C.* are in the offing, and the *Midland Bank* is giving both a one-for-three free scrip issue and a one-for-three rights offer to raise £24 million, half in early July and half at end-August. An issue of modest amount by *Centrovincial Estates* deserves attention because it included an attempt to restrict "stagging" by paying in all cheques on receipt and trying to weed out all multiple applications. Despite this, applications considered to comply with the terms covered the offer nearly 52 times. "Stagging" as such is useful in starting a market. But it is now carried to excess. The suggested alternative of making issues by tender is not suited to offers to a wide public of varying degrees of instruction, and would sometimes be unacceptable to companies. More competition between issuing houses should mean a closer guess at what the market will pay, and the retention of application money until after allotment might well prove helpful. Among unit trusts *A.E. & G. Trust*, specialising in the atomic and electronic fields, is understood to be planning an issue of 500,000 shares.

Dividend Announcements

An event of the month is the decision of the Council of the Exchange to alter its regulations for the announcement of dividends. For a couple of decades or so the general rule has been that dividends are announced after the closing of the House. Now they are to be announced while it is in session. A way of being absolutely fair to all is not easy to find, but the main objection to the past procedure was that, now and then, inter-office dealings occurred at a time when many people, even large holders, were unaware of new facts and perhaps could not be reached to be told of them. The new ruling may get over this difficulty, but it draws a firm line between, on the one hand, the market and institutional investors in London, and, on the other, all other investors, many of whom may be a whole day behind the fair. Those brokers in touch with London by teleprinter and their major customers will be only slightly less privileged than those in London, but they may still miss the boat. While there is no reason to doubt the desire of the Council to see fair play between all buyers and sellers, the step proposed will seem to many to be a retrograde one. The Council has no power to direct the actions of company boards in such matters as dividend declarations, but the previous ruling was very widely observed. It remains to be seen how far the companies will accept the new one. There has already been one refusal to comply.

International Finance

While almost every week brings some new evidence of the extension of dealings in existing shares in countries other than the country of origin, last month saw a marked extension in the arrangements, actual or planned, for expanding facilities for international finance by the action of governments or of institutions run by them. The recent extension of E.C.G.D. credits for heavy exports is a minor example. In a much wider field Dr. Per Jacobsson has been talking, as chief of the International Monetary Fund, to the Economic and Social Council of the United Nations of a plan to extend international liquidity, possibly through the main industrial countries permitting the use of increased amounts of their currencies for the purposes of the Fund; while Mr. Black is already talking of an expansion of the resources of International Development Association, whose first operation is a projected interest-free loan for 50 years with a ten-year moratorium on repayments. What all this will add up to in additional development in both the less and the more economically developed countries remains to be seen. But the object is plainly an attempt to raise living standards and the equipment for this will be supplied, mainly under competitive conditions, by the industrial countries, including Britain. This also means increased opportunities for the British investor, who will be called upon to finance the necessary expansion of our capacity to produce competitively.

Points From Published Accounts

The Source and Application of Funds

The expression "cash flow," long used in the United States, has recently been taken up by investment analysts in this country. It is an indicator of the extent to which a company is self-financing. Cash flow consists of two parts: (i) the gross untaxed profits which the company retains by way of depreciation, depletion and obsolescence allowances; and (ii) the taxed profits after deducting all expenses including interest payments. Some analysts deduct in addition any dividend distributions made, and it rather depends upon the purpose for which the computation is made which provides the more suitable basis.

A few years ago United States investment analysts began to turn their attention from the balance sheet to the income statement; more recently they have shown interest in another financial statement, known by various names such as the "Funds Flow Statement," "Statement of Funds," "Statement of Changes in Working Capital" or "Statement of Financial Operations." Funds Flow Statements are becoming more popular because they help to explain why, even when profits are high, dividends (or wages, or expansion programmes) cannot be increased. Few layman fail to be puzzled by accounts which show something like £2 million greater profit accompanied by a fall in bank balance and a statement to the effect that the dividend for the year will be cut because of the company's financial difficulties. It would be interesting, therefore, to know how many United Kingdom companies (if any) have adopted the funds flow statement as a regular feature of their accounting statements. They appear to be a common feature of many Australian company reports, and that reproduced in this issue was published by the *Anglo-Newfoundland Development Company Ltd.*, a company incorporated in Newfoundland.

ANGLO-NEWFOUNDLAND DEVELOPMENT COMPANY, LIMITED
and Subsidiary Companies

Consolidated Statement of Source and Application of Funds

	1960
SOURCE OF FUNDS:	
Net income	2,746,008
Depreciation and depletion charges to net income not requiring an expenditure of funds	2,996,244
Repayment of loan to associated company	200,000
Transfer of trade investments,	901,001
Disposal of other investments	10,334
Transfer of provisions for shortages and obsolescence of inventory no longer required	646,046
	7,499,633
APPLICATION OF FUNDS:	
Capital expenditure on land, buildings, equipment, timber limits and mining rights (net)	4,139,878
Purchase of trade investments	14,829
Dividends	1,649,524
	5,804,231
Increase in working capital	1,695,402
Working capital at the beginning of the year	26,820,844
Working capital at the end of the year	$28,516,246

There is no general agreement as to the form which a funds flow statement should take, and a variety is found in practice. Nor is there any universally accepted definition of the term "funds." Thus, the statement reproduced explains the change of *working capital*; a variant of the funds flow statement shows the sources and applications of *cash*. Both forms are useful; it is only regrettable that the application of the term "funds flow statement" to both should cause confusion between them.

Counting the Cost

Were a prize to be awarded to the company producing the most unusual accounts, it might well go this month to the *Ross Group Ltd.*, whose directors' report and accounts for the year ended September 30, 1960, arrived in an expensive-looking transparent plastic folder which included a right-hand section designed to accommodate the Chairman's Report (in green, black and white) with Annual Review (a 36-page booklet containing some 40-50 illustrations in full colour, many more in black and white and, in addition, maps and statistics). Unfortunately the plastic folder and the accounts with their shiny red cover appear to have developed a firm attachment to each other—in fact had they been only slightly more firmly attached it would have been impossible to study the accounts at all. It is good to see a group like this take such pride in the presentation of information. Both design and printing are by Ross Group Subsidiaries. But there must be a limit to the costs which may reasonably be incurred in supplying members with annual accounts. Can the cost of a plastic folder ever be justified by the small wear and tear given to accounts by the average shareholder?

Assets on the Left?

Though the rest of the world may not agree that the left hand side of a balance sheet is the proper place for capital and liabilities, or the right hand side for assets, most United Kingdom companies adhere to the accepted practice. Chosen for reproduction this month is the balance sheet of one of those that does not: *Transparent Paper Ltd.* Of particular interest is that the capital employed side of the balance sheet is so laid out as to disclose, not the total interest of the shareholders according to the books, but that of ordinary shareholders separately from preference shareholders.

Stocks are seen to have increased very

TRANSPARENT PAPER LIMITED

Balance Sheet as at December 31, 1960

(Comparative figures, appearing to the left of the description, are omitted.)

NET ASSETS	£	£	£
Fixed Assets:			
Freehold Land and Buildings as valued in 1937 with subsequent additions to January 2, 1960, at Cost		886,738	
Additions at Cost during year		64,680	
		951,418	
Less Depreciation on Freehold Buildings written off		230,718	
			720,700
Machinery, Plant, Fixtures and Fittings, Motor Vehicles, etc., as valued in 1937 with subsequent additions to January 2, 1960, at Cost		2,534,435	
Additions at Cost, less Sales, during year		389,515	
		2,923,950	
Less Depreciation written off		1,268,050	
			1,655,900
Patents, etc., as per last Balance Sheet			1
			2,376,601
Interests in Subsidiary Companies:			
Shares at Cost		25,306	
Less Amount written off from Capital Reserve being cost of Goodwill of newly acquired Subsidiary		11,057	
		14,249	
Amounts due from		169,427	
			183,676
Trade Investments			98,679
Deposits on Machinery			4,762
Current Assets:			
Stocks on Hand at Cost		613,636	
Sundry Debtors and payments in advance, *less* Provision for Bad Debts		538,657	
Bills Receivable		39,320	
Cash at Banks, and in Hand		5,463	
		1,197,076	
Deduct			
Current Liabilities:			
Bank Overdraft	75,594		
Sundry Creditors and Accrued Charges	532,431		
Taxation	204,333		
Proposed Dividend (*net*)	102,532		
		914,890	
			282,186
			£2,945,904

CAPITAL EMPLOYED	£	£	£
	Authorised	*Issued*	
Preference Capital:			
6½ per cent. Cumulative Preference Shares of £1 each	200,000	200,000	200,000
Ordinary Capital, Reserves and Surplus:			
ORDINARY SHARES of 5s. each	1,116,000	1,116,000	
	1,316,000		
CAPITAL RESERVES:			
General Capital Reserve	307,838		
Sale of certain manufacturing techniques	9,500		
	317,338		
Less Goodwill of Subsidiary Company written off	11,057		
	306,281		
Debenture Redemption Fund	27,488		
		333,769	
REVENUE RESERVE AND SURPLUS:			
General Revenue Reserve	700,000		
Profit and Loss Account	166,970		
		866,970	
			2,316,739
Amounts Set Aside for Future Taxation:			
Income Tax 1961/62		142,000	
Tax deferred on Initial Allowances		123,665	
			265,665
3½ per cent. First Mortgage Debenture Stock			163,500

NOTE:
Commitments for Capital Expenditure not included above amount to £268,353

A. M. WEBER-BROWN
ERIC C. PUTTOCK
} *Directors*

£2,945,904

considerably over the year. The chairman explains this by saying that there has been a growing tendency in recent years, which became more marked during the last twelve months, for users of wrapping materials to look upon manufacturers as stockists. Finished stocks awaiting delivery instructions increased during the year, he said, by 260 tons, to over 500 tons. This trend towards stock-holding by manufacturers is not confined to the paper trade —it is found in connection with chain stores and in various other industries, and appears to be part of a gradual change in marketing methods, so that the manufacturer undertakes responsibilities which once belonged to his customers—a chance which will, without doubt, have repercussions upon the capital requirements of both manufacturers and their customers.

Comparative Figures

Companies employ a variety of methods of presenting the comparative figures for the preceding year which are required by the Eighth Schedule of the Companies Act, 1948. A study of accounts received for review this month reveals that slightly less than one third depend solely upon a black and white presentation supported by boxes, special rules or italic type; more than two thirds employ colour in one form or another, generally for the comparative figures rather than those for the current year. Over 80 per cent. of those using colour did so in the form of distinctively coloured type; the remainder chose a solid or shaded coloured background upon which comparative figures appeared in black. The colours employed ranged from shades of blue, through greens, one of which was so dark as to be almost indistinguishable in the half-light from black, to a rather repulsive copy-paper chrome yellow, and on to every imaginable shade of red from corroded pillar box to salmon pink (grade 3), a watery crimson and nut brown. Certainly no one could complain of lack of variety.

Opinion on the proper place for comparative figures was divided, though over two-thirds favoured presentation in a column or columns to the left of the description, with the current year's figures to the right of the description. The remainder almost all chose to place the comparative figures to the right of those for the current year. Amongst the exceptions were *Alfred Herbert Ltd.*, with the 1959 figures to the left of the 1960 figures, and certain South African companies which broke the normal rules of consistency by printing the comparative figures down the extreme edges of the balance sheet, that is, on the left of the left hand page and on the right of the right hand page.

The accounts of several other South African companies (such as *Western Areas Gold Mining Co. Ltd.*) are interesting in so far as they employ a grey background throughout, apart from a band of white which spotlights the current year figures in terms of Rand. These accounts include three money columns: 1959 and 1960 in terms of £'s and 1960 in terms of Rand.

Subvention Payments

The accounting treatment of subvention payments is discussed in Recommendation on Accounting Principles No. 18, paragraph 51, which recommends that "where a holding company has given or received a subvention payment it need not be shown separately in the profit and loss account of the holding company provided that the income from investments in subsidiaries is included in the trading result and there is appropriate description of that result." Accounts disclosing subvention payments therefore do not appear very frequently, so the following extracts from those of *R. Rowley & Co. Ltd.* may be of interest.

R. ROWLEY & CO. LIMITED
Profit & Loss Account for the year ended December 31, 1960
(Extracts)

	£	£	£
Net Profit before Taxation			115,771
Deduct:			
Estimated Profits Tax on Current Profits		11,000	
Estimated Income Tax on Current Profits		39,000	
			50,000
Net Profit after Taxation			65,771
BALANCE FROM LAST ACCOUNT		83,419	
Less:			
Subvention Payments to a Subsidiary	18,030		
Taxation repaid thereon	9,555		
		8,475	
			74,944
			140,715
Subvention Payments to be made to Subsidiaries		23,707	
Less: Taxation allowable thereon		12,002	
			11,705
Amount available for Appropriations			129,010

R. ROWLEY & CO. LIMITED & SUBSIDIARY COMPANIES
Consolidated Profit and Loss Account for the year ended December 31, 1960
(Extracts)

	£	£	£
Net Profit before Taxation			75,340
Deduct:			
Estimated Profits Tax on Current Profits		11,000	
Estimated Income Tax on Current Profits		39,000	
		50,000	
Less over-reserved in 1959 due to Subvention Payments		9,555	
		40,445	
Taxation recovered on the loss of a Subsidiary	5,289		
Taxation allowable on Subvention Payments to be made	12,002		
		17,291	
			23,154
Net Profit after Taxation			52,186
Add:			
Balance from last account			69,112
Amount available for Appropriations			121,298

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Legal Notes

Company Law—
Winding-Up: Dispensing with Settlement of List of Contributories
Section 257 (1) of the Companies Act, 1948, is as follows:

> As soon as may be after making a winding-up order, the court shall settle a list of contributories, with power to rectify the register of members in all cases where rectification is required in pursuance of this Act, and shall cause the assets of the company to be collected, and applied in discharge of its liabilities. Provided, that where it appears to the court that it will not be necessary to make calls on or adjust the rights of contributories, the court may dispense with the settlement of a list of contributories.

In re Paragon Holdings Ltd. [1961] 2 W.L.R. 421 was not a case in which any question arose either of making calls or of adjusting the rights of the contributories, so that in hearing the liquidator's petition to dispense with the settlement of a list of contributories the Court had to consider how it was to exercise its discretion under the sub-Section.

Buckley, J., considered what subsequent steps have to be taken in a winding-up. Section 265 of the Act provides for an order of the Court allowing the liquidator to distribute surplus assets of the company to the contributories, and such an order, without which the liquidator cannot distribute, is ordinarily accompanied by a schedule or list of the contributories who will be recipients under the distribution. This emphasises the need of an accurately and justly composed list of contributories — a need which the procedure laid down by the Companies (Winding-Up) Rules, 1949, pursuant to Section 257 (1) of the Act, is designed, albeit at some cost and labour, to satisfy. It was this procedure of settling the list which the liquidator asked the Court to dispense with. Buckley, J., thought that the scale and complexity of the affairs of the company did not permit him to make the order asked. "If there were a very simple case," he said, "of a very small number of shareholders where it was possible to establish that the position was perfectly clear without going through the formalities prescribed by the rules relating to the settlement of the list of contributories, that would be the sort of case in which the court could properly dispense with the settlement of the list under Section 257 (1), but it should not do so, in my view, in the case of a company with a large number of shares held widely by a large number of shareholders."

Company Law—
Who May Apply for Name of Company to be Restored to Register
Section 353 (*b*) of the Companies Act, 1948, provides that:

> If a company or any member or creditor thereof feels aggrieved by the company having been struck off the register, the court on an application made by the company or member or creditor before the expiration of twenty years from the publication in the *Gazette* of the notice aforesaid may, if satisfied that the company was at the time of the striking off carrying on business or in operation, or otherwise that it is just that the company be restored to the register, order the name of the company to be restored to the register. . . .

If an application under this sub-Section is granted the company "shall be deemed to have continued in existence as if its name had not been struck off." Thus the sub-Section involves a certain amount of make-believe, because a company, having been struck off and therefore ceased to exist, is yet allowed to petition the court as if it was still alive. **In re New Timbiqui Gold Mines Ltd.** [1961] 2 W.L.R. 344 raised the question how far the make-believe should be carried, for a petition for restoration was presented by two persons who had both become "members" by acquiring bearer shares after the company had been struck off, and "creditors" by becoming assignees of debts of the company created before the striking off, although the assignment was after striking off. Buckley, J., held that the only people who can enjoy the character of "member" or "creditor" within the meaning of the sub-Section are those who were members or creditors of the company before it was struck off, and that such creditors, because their debts cease to be assignable in law when the company is struck off and so ceases to exist as a debtor, cannot assign to anyone else the rights which may be theirs as "creditors" within the meaning of the sub-Section. He further held that it made no difference that when purporting to become a "member" or "creditor" a person did not know that the company had ceased to exist.

Contract—
Validity of Clause for Repaying Insurance Money
In **Alder *v.* Moore** [1961] 2 W.L.R. 426, the defendant was a footballer and member of a union which insured its members against permanent total disablement. The defendant suffered an injury to his eye in a match, which reduced his vision in that eye to 10 per cent. of normal. This injury satisfied certain conditions of the policy, so that the defendant was entitled to a payment of £500 from the underwriters on signing a declaration saying ". . . In consideration of the above payment I hereby declare and agree that I will take no part as a playing member of any form of professional football in the future and that in the event of infringement of this condition I will be subject to a penalty of the amount stated above." He signed the declaration and received the payment, but within four months of receipt he resumed employment as a professional player. Thereupon the underwriters sued for a return of the £500. The main defence raised was that the sum claimed was in law as well as in the language of the declaration a penalty, and so irrecoverable. But the majority of the Court of Appeal held that, despite the wording, it was not a penalty and was recoverable. It is the substance of a transaction that decides whether an obligation to pay is a penalty, and here the sense of the defendant's obligation was that if he played professional football again he would refund the sum which he had received on the basis that he could not do so: the refund was not in any sense a fine or exaggerated or unconscionable payment.

Executorship Law and Trusts—
Variation of Protective Trusts
In re Burney's Settlement Trusts [1961] 1 W.L.R. 545 raised the question how the Court ought to exercise its discretion under the Variation of Trusts Act, 1958, to sanction a proposed variation affecting the discretionary interest of any person under a protective trust. The Court has power to approve an arrangement in behalf of a person with such an interest even though the arrangement will not result in a benefit tc that person, but Wilberforce, J., nevertheless held that its discretion must be exercised judicially. The settlement in point was made by a wife upon herself for life, then upon her husband, should he survive her, for his life on protective trusts, and after the death of the surviving spouse on trust for the issue of the marriage as the wife should appoint, and in default of appointment to the children of the marriage in equal shares. There was a further power given to the wife, if she survived her husband and married again, to appoint half the income of the settlement to a subsequent husband, subject

to certain limitations. The wife, the husband and their only two children applied to the Court for approval for an arrangement whereby the wife released the power to appoint in favour of a subsequent husband, and the husband's reversionary life interest ceased to be upon protective trusts and was enlarged to an absolute interest. The Judge said that the interests of those who might become entitled under the protective trusts could not be ignored, and that it was incumbent on the applicants to make out a case for the exercise of the Court's discretion. He had to consider the proposal as a whole, and there were four factors which inclined him to make the order asked. First, the husband had so advanced himself since 1927, the date of the settlement, as to be no longer in need of the "protection" then imposed —and this "protection" was in any case a barrier to the surrender of a life interest, which was nowadays often desirable. Secondly, the settlor could not have meant to benefit some of the people who might have benefited from the protective trusts. Thirdly, the husband would be enabled to surrender his life interest, by which others gained something comparable to what they lost by the disappearance of the possibility of a forfeiture of his life interest. Fourthly, the wife's surrender of the power to appoint in favour of a subsequent husband conferred a specific and substantial benefit on those whose interests under the protective trusts had principally to be considered, namely, the wife's issue. The Judge said he would not necessarily have decided differently if one of these elements had been missing.

Trust
Under Variation of Trusts Act, 1958, Court need not be satisfied that arrangement conferred any benefit upon persons who might become interested under protective trusts, but their interests could not be disregarded altogether.
In re Burney's Settlement Trusts. (1 W.L.R. 545.) See page 301.

Will
Name and arms clause held not void for uncertainty and void as contrary to public policy only so far as it affected married women or their husbands.
In re Howard's Will Trusts. (T.N. March 30.)

ARTICLES

ABBREVIATIONS USED
All E.R.—The All England Reports.
T.N.—*The Times* Newspaper.
W.L.R.—*The Weekly Law Reports.*
Note: Taxation cases and articles excluded.

An Accountant's Guide to Recent Law

ACTS OF PARLIAMENT
Consolidated Fund (No. 2) Act, 1961. For service of the years 1960, 1961 and 1962.
National Health Service Contributions Act, 1961. Increasing rates of contributions and amending Act of 1957.

STATUTORY INSTRUMENTS
No. 591. Income Tax (Employments) (No. 8) Regulations. Amending P.A.Y.E. Regulations.
No. 555. Legal Aid (Assessment of Resources) (Amendment) Regulations. Amending Regulations of 1960.
No. 557. National Insurance (Graduated Retirement Benefit and Consequential Provisions) Regulations. Providing for circumstances in which graduated benefit may be satisfied by a single payment.
No. 582. Registration of Title (City of Manchester) Order. Extending compulsory registration of title to land on sale.
No. 583. Registration of Title (City of Salford) Order. Extending compulsory registration of title to land on sale.
No. 585. Foreign Compensation (Czechoslovakia) (Registration) (Amendment) Order. Enabling certain additional categories of claims to be registered.
No. 598. National Insurance (Collection of Graduated Contributions) Amendment Regulations. Further amendments.
No. 577. Double Taxation Relief (Taxes on Income) (Sweden) Order. Providing for extension of scope of 1949 Convention.
No. 578. Double Taxation Relief (Estate Duty) (Sweden) Order. Giving effect to Convention on double death duties.
No. 579. Double Taxation Relief (Taxes on Income) (Faroe Islands) Order. Giving effect to extension of Convention of 1950.
No. 619. Double Taxation Relief (Taxes on Income) (Swedish Dividends) Regulations. Providing for powers of Commissioners with regard to Swedish coupon tax.

DECISIONS OF THE COURTS

Bailment
Goods stored subject to lien. Whether bailor in "possession."
Towers & Co. Ltd. v. *Gray.* (2 W.L.R. 553.)

Contract
Courts cannot interfere on equitable grounds with ordinary contracts freely entered into which have turned out harshly for one of the parties. Present state of the law as to penalties discussed.
Campbell Discount Co. Ltd. v. *Bridge.* (2 W.L.R. 596.)
Parol evidence admissible in case involving Hire Purchase Acts, since those Acts, like Bills of Sale Acts and Rent Acts, could not be excluded by documents which, though purporting to be outside the Acts, represented a transaction within their ambit.
Campbell Discount Co. Ltd. v. *Gall.* (2 W.L.R. 514.)

Hire Purchase
Agreement by hirer with dealer for price within statutory protection. Blank form signed by hirer and later filled up by dealer for price outside the statutory protection. Not enforceable by company unless hirer estopped by his own negligence.
Campbell Discount Co. Ltd. v. *Gall* (*supra*).

Limitation
Rule in *Clayton's* case applies to all current accounts. But payment made generally on account was on account of balance outstanding and due at date of payment, and by Section 23 (4) of Limitation Act, 1939, time started running afresh from date of payment.
In re Footman Bower & Co. Ltd. (2 W.L.R. 667.)

Restrictive Practices
Restrictions held contrary to public interest.
In re Associated Transformer Manufacturers' Agreement. (1 W.L.R. 660.) See a Professional Note in this issue.
In re British Bottle Association's Agreement. (1 W.L.R. 760.) See ACCOUNTANCY, April, page 192.

Viscount Hailsham, Minister of Science, will open the first British conference to consider the purely social and economic effects of automation. Under the title of **Automation—Men and Money** it will be held in Harrogate from June 27 to June 30 under the sponsorship of eight member organisations of the British Conference on Automation and Computation: British Institute of Management, British Productivity Council, Department of Scientific and Industrial Research, Institute of Cost and Works Accountants, Institute of Personnel Management, Institution of Production Engineers, Tavistock Institute of Human Relations and the Trades Union Congress.

An imposing list of speakers will deal with the economic, financial, psychological, educational and social aspects and implications of automation. Further particulars can be obtained from the British Institute of Management.

Mr. Gordon A. Hosking, F.I.A., has taken Mr. Kenneth J. Burton, F.I.A., into partnership in the firm of Gordon A. Hosking & Co., Consulting Actuaries, 11/12 Finsbury Square, London, E.C.2.

Letters to the Editor

Graduated National Insurance Contributions

Sir,—When holiday pay is paid to an employee on the termination of his employment, the rules shown in Leaflet N.I.116 of the Ministry of Pensions and National Insurance, paras. 59, 55 and 30, do not apply. Instead it is treated as an additional irregular payment under paragraph 45.

In other words, for example, with a weekly worker who receives his last week's pay together with a fortnight's holiday pay on leaving his employment, the three weeks' pay are added together and treated as one week, so that the maximum amount deductible from the employee for graduated national insurance contribution for the three weeks' pay is 5s. 1d. and not 15s. 3d.

Yours faithfully,

D. A. ALCOCK, A.C.A., A.C.W.A.

Lowestoft.

Decimalisation

Sir,—I do not think Mr. Kermode's idea (ACCOUNTANCY, April, page 225) for giving separate names to four units of currency would work at all well. When it is decided where the decimal place is to go, then everything to the left of the decimal should have one designation and everything to the right another.

Thus, accepting ten present shillings as the unit and calling them a noble, as Mr. Kermode suggests, I submit that:

£100 becomes	200 nobles
£52 17s. 6d. becomes	105.75
(one hundred and five nobles, seventy-five pence)	
17s. 6d. becomes	1.75
(one noble, seventy-five pence)	
7s. 6d. becomes	75 pence

To call seventy-five pence "seven shillings and fivepence" would be confusing; and to call 105.75 "ten sterls, five nobles, seven shillings and five pence" would be worse.

Yours faithfully,

HOWARD DIAMOND, F.C.A.

London, S.W.1.

Books Received

Fiscal Needs of the Canadian Provinces. Canadian Tax Papers No. 23. By Eric J. Hanson. Pp. vii+230. (*Canadian Tax Foundation*, 154 University Avenue, Toronto, 1: $3.)

Invest in the Future. Report of a Conference on Recruitment and Training Policy in the Small and Medium Sized Firm, Buxton, 1960. Pp. 60. (*Federation of British Industries:* 6s.)

Electronic Computers and their Use by Local and Public Authorities. An edited reprint of a special series of articles contributed to *The Local Government Chronicle* by Alban & Lamb. Pp. 16. (*Charles Knight & Co. Ltd.*, 11-12 Bury Street, London, E.C.3: 1s.)

Exchange Arithmetic. By H. C. F. Holgate, PH.D., B.SC. Fourth edition by H. E. Evitt. Pp. viii+136. (*Pitman:* 15s.)

Hire Purchase in a Free Society. Third edition, revised and enlarged. By Ralph Harris, Margot Naylor and Arthur Seldon. Foreword by Sir Oscar Hobson. Pp. 319. (*Hutchinson* for Institute of Economic Affairs: 30s.)

Entropy and the Unity of Knowledge. By P. T. Landsberg, M.SC., PH.D., D.I.C., Professor of Applied Mathematics. An inaugural lecture delivered at University College, Cardiff, in November, 1960. Pp. 27. (*University of Wales Press:* 3s. 6d.)

Crematoria Statistics, 1959/60. Pp. 25, and **Libraries Statistics, 1959/60.** Pp. 21. (*Institute of Municipal Treasurers and Accountants*, 1 Buckingham Place, London, S.W.1: 10s. 6d. each.)

The Student's Columns

BACK DUTY

"BACK DUTY" IS the term used to denote arrears of tax in respect of sources of income of the taxpayer which have been either under-assessed or completely unassessed through his failure to provide details of them in his total return forms. Such failure may be accidental and unintentional, or the result of a deliberate intention to defraud the Revenue, and the penalties imposed will depend not only upon the amount of tax involved but upon the culpability of the taxpayer. It is not the object of this article, however, to discuss the penalty provisions of the Income Tax Acts, but to consider the ascertainment of the tax under-paid in a back duty case. This is frequently a most complicated matter, not because the principles involved are particularly abstruse, but because of the lack of information upon which to work. Probably the most frustrating feature of back duty cases is the inevitable slenderness, or even complete absence so long after the event, of evidence in favour of the taxpayer's contentions, and the apparent difference in the degree of proof required by the Revenue according to whether a particular assertion is made by the taxpayer or his advisers, or by H.M. Inspector of Taxes. Mr. J. Coffield's recent work, *The Tax Gatherers*, which met with a rather mixed press, presents the thesis that when the taxpayer is weighed in the Revenue balances they are weighted against him. Not all accountants agree with him, despite the fact that he was himself at one time on the Revenue side as an Inspector of Taxes and so may claim to speak from experience—but there is little doubt that those scarred by back duty conflicts share some of his doubts.

Back duty calculations, except in the most straightforward case of omission of a single readily assessable

source, normally involve computations along the lines of incomplete records. Last month's article ("Incomplete Records," ACCOUNTANCY, April, pages 228–30) dealt with the preparation of final accounts from a list of the assets and liabilities at beginning and end of a period, together with details of cash and bank transactions. If the latter are not available, or are only present in a partial state, it is possible merely to compare the opening and closing capital account balances and to find the increase or decrease over the period. Add to this any drawings made by the proprietor, and subtract any additional capital brought into the business, and the result will be the profit or loss. If there were any capital profits or losses during the period, for example, on the sale of plant and machinery, these should be eliminated in order to find the net trading profit.

Illustration 1

Lion purchased a small grocer's shop on April 1, 1960. His opening "balance sheet" was:

	£		£
Capital	5,000	Freehold premises ..	2,500
		Stock	1,750
		Cash	750
	£5,000		£5,000

Unaware that it was necessary for him to keep any accounting records, Lion arrived at March 31, 1961, when he took stock of his position and prepared the following "balance sheet":

	£		£
Capital	5,100	Freehold premises ..	2,500
		Stock	2,350
Creditors	525	Debtors	430
		Cash	345
	£5,625		£5,625

Lion regularly withdrew £100 per month from the till, but had introduced a further £500 in December when he found that his business banking account was "getting into the red."

Solution

His profit for the year may be computed as follows:

		£
Capital, March 31, 1961		5,100
Add: Drawings for the year		1,200
		£6,300
Deduct: Capital, April 1, 1960	£5,000	
Additional capital introduced December, 1960	500	
		5,500
Profit for the year ended March 31, 1961		£800

It may well be asked why, if we can compute the profit of a business as easily as this, we should go to the trouble of preparing complete final accounts; but a moment's thought will show:

(i) That this form of single entry provides no information about how the profit arose: it gives no analysis of expenditure or income; and

(ii) It is entirely dependent upon the accuracy of the information regarding drawings, additions to capital, and opening and closing assets and liabilities.

The normal form of back duty computation works in much the same way, but extends generally over a much longer period of time—frequently so far back that the memories of all parties are very vague indeed—and it is subject to similar limitations. Very rarely is it possible to isolate business transactions, so the computation has to be based upon the entire assets and liabilities of the taxpayer. Normally he has forgotten exactly how much he spent in the way of living expenses in previous years, so, whilst the figures the Revenue inserts are often on the high side, he is in no position to prove them to be incorrect. If he forgets any windfall additions to his capital during the period under review, these automatically get counted as untaxed receipts. The position is similar if he forgets to include an asset which he possessed at the starting point of the investigation—it falls into the back duty assessment.

Illustration 2

Tiger is in trouble with the Inland Revenue, which has just discovered the existence of three banking accounts, interest upon which had never been declared for tax purposes. You are given the following information and asked to estimate the tax underpaid. It is agreed that there was no evasion prior to 1955, and that any amount under assessed other than bank interest was earned by street-bookmaking and is attributable equally to the years 1956–60.

You ascertain that at January 1, 1956, Tiger possessed:

(i) 18 Harley Street, Wigan, valued at .. £2,500

(ii) Furniture therein valued at £450

(iii) Savings certificates which had cost him .. £375

(iv) Shares which were valued as follows:

Scottish Diamond Mines Ltd. ..	*£800*	
Jersey Whisky Distillers Ltd. ..	*£200*	
		£1,000

(v) Ford car ZZZ333 which had cost him .. £820

He owed his father, on interest-free loan, £2,000.

In 1957 he purchased a cabin cruiser for £800, but after spending £200 on renovating it he sold it for £920.

His father died in 1958 and he received as his net share of the estate the sum of £450. Later that year he won £550 on the pools and spent half that sum on a round-Britain cruise.

In 1956 and 1957 he paid premiums of £50 per annum on an endowment policy which matured in July, 1958. With profits he received £2,230.

His shares in Scottish Diamond Mines Ltd. were sold in 1959 for £600, and later that year he sold 18 Harley Street for £4,000 (net) and purchased 11A Rotten Row for £5,600.

At December 31, 1960, Tiger possessed the following:

(i) 11A Rotten Row.

(ii) The same furniture as in 1956.

(iii) The savings certificates he possessed in 1956, now worth £500.

(iv) Shares in Jersey Whisky Distillers Ltd. (same holding) now valued at £2,650.

(v) Ford car ZZZ333, now valued at £120.

(vi) Three banking accounts totalling £5,645.

Tiger is in salaried employment and received a salary of £1,360 per annum throughout the period under review.

His household expenses (exclusive of insurance premiums but including taxation) are estimated to have been:

	£
1956	*800*
1957	*900*
1958 (excluding cruise)	*1,000*
1959	*1,200*
1960	*1,400*

Income from investments (including the bank accounts) was £1,200 during the period of five years, and has been or will be taxed separately.

Schedule A taxation is charged in household expenses.

Solution

	£	£
Net assets at December 31, 1960:		
11A Rotten Row (at 1956 valuation)		5,600
Furniture (at 1956 valuation)		450
Savings certificates (at cost)		375
Shares in Jersey Whisky Distillers Ltd. (at 1956 valuation)		200
Ford car ZZZ333 (at cost)		820
Banking accounts		5,645
		13,090
Deduct: Net assets at January 1, 1956 (£5,145—£2,000)		3,145
Increase in net assets over the period of five years		9,945
Deduct:		
Excess of salary over household expenses (£6,800—£5,300)	1,500	
Gross share of father's estate (£2,000 loan set off+£450 cash)	2,450	
Pools winnings	550	
Proceeds of endowment policy	2,230	
Profit on sale of 18 Harley Street	1,500	
Income from investments	1,200	
		9,430
		515
Add:		
Loss on sale of cabin cruiser		80
Round-Britain cruise		275
Life policy premiums		100
Loss on sale of shares in Scottish Diamond Mines Ltd.		200
Amount under-assessed		£1,170

Additional assessments: £234 per annum in each of the five years 1957/58 to 1961/62.

It will be observed that certain assets were stated in 1956 at cost, whereas others were stated at an estimated value. This does not invalidate the computation, since an asset is taken in at its opening valuation throughout, even if its value has increased (as the shares in Jersey Whisky Distillers Ltd.) or fallen (as was the case with the car). To do otherwise would be to take into account capital profits or capital losses.

SECTION 341 LOSSES

SECTION 341, INCOME TAX ACT, 1952, provides that where an individual or company makes a loss in any year of assessment in carrying on any trade, profession or vocation or employment, he may set off the amount of that loss against his *total* income for that year of assessment. Where full relief for the loss is not obtained in that year, the balance may be carried forward for one year under Section 341. If after that year full relief has not been obtained, the balance can be carried forward under Section 342 against the profits arising from the same business. Carrying losses forward under Sections 341 and 342 can occur only if the business continues to be carried on. For relief to be given for 1960/61 or any subsequent year, it must be shown that the trade was carried on in that year of assessment on a commercial basis and with a view to the realisation of profits. If there has been a change in the manner in which the business is being carried on during a year or accounting period, it is necessary to consider the manner in which it is being carried on at the end of either the year of assessment or the accounting period.

Claims under Section 341 can become complicated where both husband and wife have incomes. In such cases, the loss incurred by one spouse must be set off against that spouse's income of the corresponding class (that is, a loss of earned income against earned income or one of unearned income against unearned income), then against that spouse's other income. If the loss is sufficient and there is no claim made to the contrary, the balance of the loss will be set off next against the other spouse's income of the corresponding class, and finally against the other spouse's other income.

Alternatively, at the taxpayer's request, the loss may be set off against only the total income of the spouse who made the loss.

In advising taxpayers on claims, it is necessary to take into account three factors, namely:

(i) Capital allowances must be set off before losses;

(ii) Losses must be relieved before personal allowances are considered, and personal allowances unabsorbed cannot be carried forward; and

(iii) Relief can be claimed under Section 341 (as amended) for the year of the loss and, to the extent that the loss is not used in the year of loss, the following year.

Illustrations

The following facts relating to the affairs of Mr. I. M. English and his wife illustrate the importance of considering these three factors.

Mr. English carries on business as a manufacturer of dog food and has the following results: Year ended March 31, 1959, profit £1,720; year ended March 31, 1960, loss of £3,530; year ended March 31, 1961, profit £2,110. Capital allowances are: 1959/60 £120; 1960/61 £310; 1961/62 £170. He owns the matrimonial home (N.A.V. £80) and 6,000 6 per cent. preference shares of £1 each in Ogo Ltd. His wife runs a shop selling underwear. Her results for the last three years are: year to November 30, 1958, profit £630; 1959, £450; 1960, £270. Capital allowances 1959/60 £90; 1960/61 £45; and 1961/62 £60. She has dividend income for 1959/60 of £210 and 1960/61 of £380. Mr. and Mrs. English have two sons, nine and fourteen years of age. Mr. English pays life assurance premiums of £60 per annum. Assuming that a claim to restrict the loss relief to the husband's income only in the first or second year was not made, the tax payable will be as follows. (To illustrate the result clearly the husband's and wife's incomes have been distinguished, although separate assessments have not been claimed.) Family allowances and national insurance contributions are ignored. (E.I.A.=earned income allowance; P.A.=personal allowance; W.E.I.A.=additional personal allowance for wife's earned income; C.A.=child allowance; R.R.=reduced rates; L.A.A.=life assurance allowance.)

Illustration (1)

	1959/60		*1960/61*	
	Husband	*Wife*	*Husband*	*Wife*
	£ £	£ £	£ £	£ £
Schedule D, Case I	1,720	630	— —	450
Less: Capital allowances	120	90	— —	45
	1,600 (i)	540 (iii)	— (i)	405 (iii)
N.A.V.	80		80	
Preference shares	360		360	
	— 440 (ii)	210 (iv)	—440 (ii)	380
	2,040	750	440	785
Less: Loss relief, relieved in following order: ..	(i) 1,600	(iii) 540	(i) Nil	(iii) 300
	(ii) 440	(iv) 210	(ii) 440	
	—2,040	—750	—440	—
Loss carried forward under Section 341 £3,530—£2,790=£740				485
Less: E.I.A. 2/9ths of 405—300				24
P.A.				240
W.E.I.A. 7/9ths of £105				81
C.A. (balance)				140
				—485

No loss relief to carry forward.

If loss relief is restricted in 1959/60 to the husband's income only, but allowed to extend to both incomes in 1960/61, the tax position will be:

Illustration (2)

	1959/60		*1960/61*	
	Husband	*Wife*	*Husband*	*Wife*
	£	£ £	£	£
Income as above	2,040	750	440	785
Less: Loss relief	2,040		440	785
Loss carried forward £3,530—£2,040=£1,490.			Loss relief to be carried forward under Section 342 against the profits of husband's business only:	
Less: E.I.A. 2/9ths of £540 ..		120		£
P.A.		240	b/f. ..	1,490
W.E.I.A.		140	*Less:* Set off above	
C.A.		225	440+785	1,225
L.A.A. 2/5ths of £60 ..		24		
		—749		£265
		£1		
£1 at 1s. 9d.=		1s. 9d.		

If loss relief is restricted in both years to the husband's income only, the tax position for 1959/60 will show a liability as in Illustration (2) of £1 at 1s. 9d. In 1960/61 the position will be:

Illustration (3)

		£	£
Husband—nil.	Wife: Earned income		405
	Unearned income		380
			785
	Less: E.I.A. 2/9ths of £405 ..	90	
	P.A.	240	
	W.E.I.A.	140	
	C.A.	225	
	L.A.A.	24	
		—719	
		66	

	£	s.	d.
R.R. 60 at 1s. 9d. ..	5	5	0
6 at 4s. 3d. ..	1	5	6
	6	10	6

Loss relief to be carried forward will be £1,490 (see Illustration (2)) less £440=£1,050.

Illustration (4):

Finally, if the loss relief is allowed to extend to both incomes in the first year but restricted to the husband's only in the second year, the 1959/60 position will be as in Illustration (1) and the 1960/61 will be as in Illustration (3). Loss relief carried forward will be £740—£440=£300.

It is estimated the wife's dividend income for 1961/62 will be £400. The following alternative ways of using the various loss reliefs brought forward show the effect in 1961/62 of the claims made in 1959/60 and 1960/61:

Illustration	(1)		(2)		(3)		(4)	
	£	£	£	£	£	£	£	£
Husband's business		2,110		2,110		2,110		2,110
Less Capital allowances		480		480		480		480
		1,630		1,630		1,630		1,630
Less Relief brought forward		—		265		1,050		300
		1,630		1,365		580		1,330
Husband's unearned income		440		440		440		440
		2,070		1,805		1,020		1,770
Wife's business	270							
Less Capital allowances	60							
	—	210		210		210		210
Wife's dividends		400		400		400		400
		2,680		2,415		1,630		2,380
Less:								
E.I.A.	409		350		176		343	
P.A.	240		240		240		240	
W.E.I.A.	140		140		140		140	
C.A.	225		225		225		225	
L.A.A.	24		24		24		24	
	—1,038		— 979		— 805		— 972	
		1,642		1,436		825		1,408

	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
R.R.	83*@ 1/9	7	5	3	83 @ 1/9	7	5	3	83 @ 1/9	7	5	3	83 @ 1/9	7	5	3
	150 @ 4/3	31	17	6	150 @ 4/3	31	17	6	150 @ 4/3	31	17	6	150 @ 4/3	31	17	6
	150 @ 6/3	46	17	6	150 @ 6/3	46	17	6	150 @ 6/3	46	17	6	150 @ 6/3	46	17	6
S.R.	1,259 @ 7/9	487	17	3	1,053 @ 7/9	408	0	9	442 @ 7/9	171	7	6	1,025 @ 7/9	397	3	9
		573	17	6		494	1	0		257	7	9		483	4	0

* £60+Wife's R.R. £210—(£47+£140).

The Institute of Chartered Accountants in England and Wales

Annual Meeting

THE EIGHTIETH ANNUAL meeting of The Institute of Chartered Accountants in England and Wales was held on May 3 at the Chartered Insurance Institute, London, E.C.2.

Mr. S. John Pears, F.C.A., the President, said: Ladies and gentlemen, no doubt you will wish as usual to take as read the notice convening the meeting and the auditors' report. (*Agreed.*) Before proceeding, I will introduce those who are with me on the platform. They are: Mr. Allen and Mr. Loveday, Under-Secretaries; Mr. Peat, Mr. Lawson and Mr. House, past-Presidents; Mr. Wilkinson, the Deputy Secretary; Mr. Granger, the Vice-President; Mr. MacIver, the Secretary; Sir Thomas Robson, the senior past-President; Sir William Carrington and Mr. Barrows, past-Presidents; Mr. Evan-Jones and Mr. Carrel, Under-Secretaries.

Mr. Pears then referred briefly to one or two matters in his printed speech (see pages 254–261).

With regard to fees, he would repeat to members once again that the basic principle was to convince yourself that your fee was fair; normally you should have no great difficulty then in convincing your client, however keen the competition.

Coming to stock-in-trade, this year had seen the issue of Recommendation No. 22, which the Council believed to be a great advance on the previous Recommendation on stock. Mr. Pears had gone round the country emphasising the importance of the valuation of stock-in-trade—in his view the most important item in the accounts. Unless auditors carried out their duties under that head, he did not see how they could certify that accounts were true and fair. He would mention that Sir William Carrington and he had been having conversations with the Inland Revenue. These had been held up for some time awaiting the decision in the *Duple Motor Bodies* case, but yesterday the President had received a letter from the Chairman of the Board which would be published towards the end of next week. The Revenue had asked for something over 900 copies of the Recommendation and a copy would be issued to every Inspector of Taxes. The letter in his view was very satisfactory. He would just like to read one sentence from it: "We welcome the guidance given in the Recommendation and find it largely acceptable for tax purposes."

The Council had begun to prepare a series of recommendations on auditing, and it was hoped that the first would be issued fairly shortly. Some forecast of what the recommendations were likely to contain could be obtained by looking at the booklet on Building Societies, which he hoped had been of some considerable assistance.

The President mentioned the Council's work in connection with company law and documents issued by companies. With regard to such documents he knew there had been some criticism that the Institute did not seem to put first things first, but, directly the matter was brought to the Council's attention, a satisfactory solution was reached within a couple of months.

The next part of his speech dealt with services to the public and referred to trustee investments, decimal currency, company law, Inland Revenue, building societies and friendly societies. Then came a less pleasant subject, the accounts of solicitors. The Council were well aware that the present Solicitors' Accounts Rules and instructions for accountants were not very satisfactory. There were, however, too many cases where accountants certified solicitors' accounts without making the necessary examination —in some cases, even without looking into the accounts at all. A number of cases had been reported to the Investigation Committee, and recently to the Disciplinary Committee: this was a matter of great regret to the Council.

Next in the speech came the public service given by members serving on various bodies and a tribute to Lord De L'Isle, a member of the Institute, on his appointment as Governor-General of Australia.

The paragraphs dealing with technical activities, membership of the Institute, and the Parker Report on education and training would, he hoped, be widely read throughout the country during the forthcoming year and considered by the District Societies. The Report should come before the Council for detailed attention next January, and in the meantime, if members had any observations to make, the Council would be very willing to hear them.

The Public Relations Committee was now in full swing, and he believed that in the long run it would do a great deal to promote the services they could render to the public. The Committee should also be of considerable service to the small practitioner.

The question of registration was now appearing in correspondence and had of course been gone into a number of times. He would like to read one or two short extracts from his remarks. "In fact, of course, Parliament would never contemplate passing a registration measure except on the basis that it is necessary for the protection of the public. In my view, Chartered Accountants would stand to lose rather than to gain from a registration measure, but in the public interest we were fully prepared to accept that position when we took a leading part in the formulation of the Public Accountants' Bill of 1946."

He went on to mention that for the first time the Companies Act, 1948, introduced provisions relating to qualification for appointment as auditor: the effects of those provisions were in certain ways contrary to the Institute's provisions in the Bill they had previously been backing. Consequently the Bill had to be withdrawn, but they had tried very hard to get a substitute Bill which would cover the point. His third paragraph ran: "After the abandonment of the Bill further strenuous efforts were made by the recognised bodies in conjunction with the Board of Trade with the object of preparing a simpler form of legislation. Unfortunately these efforts were unsuccessful because it was quite impracticable to arrive at any statutory definition of 'accountancy' which would be generally acceptable bearing in mind the number of people who, though not capable of being brought within a registration measure, nevertheless undertake work of a kind done by practising accountants. For example, taxation work has been done for many years by solicitors, estate agents, retired Inland Revenue officials, banks and others, and there is no possibility of Parliament depriving them of the freedom to do taxation work merely because accountants regard themselves as the most competent persons to perform such work."

The conclusion which the Council reached some years ago, after ten years' work in conjunction with the other recognised bodies, was that it was not possible to introduce a registration measure which would be of benefit to the public and satisfactory to the profession. Those who had worked so hard were very disappointed to have to admit defeat, but defeated they were in spite of their efforts and enthusiasm.

They already had Section 161 of the Companies Act dealing with public companies; as the President had told the Guildhall audience, 99¼ per cent. of public companies' accounts were audited by chartered

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(continued on page xxxv, facing page 312)

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accountants, either members of their own body or of the Scottish and Irish bodies. They had now urged before the Jenkins Committee that the Section be extended to include exempt private companies, of which there was an enormous number. He personally felt reasonably optimistic about the prospects of success.

The President then turned to the position regarding business accounts submitted for tax purposes. At the talks which Sir William Carrington and he had had with the Inland Revenue, one of the subjects dealt with was alleged delays in submitting accounts and returns. After consulting the District Societies the representatives of the Institute were able to give the Board certain statistics supplied by members which showed a much better position than the statistics of the Inland Revenue with regard to taxation work as a whole. The Inland Revenue asked the profession to make every effort to clear away arrears. The Institute on its part had urged that more work should go to chartered accountants, but that, when a taxpayer changed to a chartered accountant, the Inspector ought not to double his requests for information: this point had been put very forcibly, but to what extent the Institute would be successful he did not know. However, the friendly conversations with the Inland Revenue would continue, and the point would be constantly brought to their notice.

He then proposed and asked the Vice-President to second the adoption of the report of the Council and the accounts for the year ended December 31, 1960.

Mr. P. F. Granger, F.C.A., Vice-President, seconded the resolution, and the President then invited questions from members.

Mr. G. M. Collier, F.C.A., recalled that the President, in one of his speeches around the country—the one at Manchester—had said that unless the standard of fees was raised substantially new entrants to the profession could not be retained. There was clearly a case for concerted action. Apart from telling them that registration was not the answer, had the Council any suggestion to offer in the way of concerted action in relation to small practitioners' fees?

The President replied that he understood that some concerted action had already been started by some firms in Manchester. He did not know the result yet; no doubt Mr. Collier could find out from his district society.

Mr. S. L. T. Crawford, F.C.A., said that in lieu of registration as a remedy for the plight of the provincial practitioners—and they were not very happy—the President had brought forward two points. Section 161 of the Companies Act, 1948, and its extension, did not get anywhere near the root of the problem. Virtually the whole of his own practice was private firms—not companies—and he suggested that the 1961 Finance Bill would lead to even fewer private companies than previously. Secondly, the answer to the President's suggestion that only recognised accountants should be eligible to appear on tax appeals was simply that the unqualified practitioner would be unable to take any appeals and his clients would get even worse treatment than at present. The suggestion was contrary to the public interest. Had the Council any suggestions to bring forward to help the country practitioners?

Mr. J. R. Mackenzie, F.C.A., referred to the Appointments Register. People who were seeking appointments used to be able to write in for the names of firms to write to, but he had heard that the method was different now.

The President said there had been, in effect, a reversion to the previous practice, which he was told—he knew very little about the subject—was more satisfactory for obtaining suitable appointments for members.

Mr. Mackenzie asked from whose point of view the other method was unsatisfactory. Had the number of people making use of the register dropped?

The President said he understood the number of appointments had dropped. He felt that that was not due to the change in the system, but to the great shortage of applicants for the posts that were offered and to the fact that those who are seeking accountants of all calibres found it better to do their own advertising. He had no objection to Mr. Mackenzie's point of view being put to the appropriate committee.

Mr. F. A. Roberts, F.C.A., said he had been doing some research in his spare time on prospectuses. He had been in touch with many institutions in the City, one of which was the Share & Loan Department of the Stock Exchange. Soon after the introduction of the Companies Act the Council properly thought it desirable to take the opinion of that very eminent Chancery counsel, Mr. Cyril Radcliffe, as he then was, who had advised that future tax was not a liability of a company and therefore could not be a provision. The Council very properly included that opinion in the *Members' Handbook*.

It had become the established practice with prospectuses to show substantial sums of money deducted from the assets in respect of future taxation. He (Mr. Roberts) could not understand the point at all. The Third Schedule required a statement of assets and liabilities. That eminent Counsel advised that future taxation was not a liability. Why did they deplete assets by something which was not a liability? City editors looked at the assets and drew the conclusion that there was a considerable element of goodwill. That, he suggested, was a misstatement, and he would go so far as to say that if he were on the Board of a company which put a new issue on the market he would be inclined to feel that his company had been heavily damaged by having its assets decreased by what he estimated was between 25 per cent. and 33 per cent. of the true asset value.

The President replied that future taxation had been debated among accountants for many years. He was sometimes a little bit of a rebel, and he thought the Council was perhaps foolish to take Counsel's opinion on that particular point; it was a matter of accounting, and why accountants had to consult lawyers, however eminent, on matters of accounting he had never been able to understand. Mr. Roberts had said that assets were often reduced by 25 per cent., but to show the net assets before deducting something which had to be paid out whatever happened seemed to him to be grossly misleading. His point of view was that the practice which had grown up was the correct one.

Mr. Roberts suggested that the statutory wording in the Companies Act must be complied with, and unless they were going to be guided on legal matters by lawyers it was difficult to say that the legal profession was a sister profession.

The President reminded him that there was a prospectus on one occasion which contained no statement which was untrue, but the prospectus as a whole was found to be misleading. He thought accountants should really be able to make up their own minds on this.

In reply to the question put by Mr. Crawford, the reason why he did not believe in registration was that it would make the lot of the small practitioner a good deal worse than it was today. First of all, he did not think they would get registration, for the reasons given in his speech. In the second place, he believed that to get any form of registration it would be necessary to let so many other people in that all the people who were now in competition with them would be in competition with them still, but with enhanced status. He was well aware of the difficulties and very sympathetic, but he did not think that was the answer. At the Council meeting only that morning there were two items on the agenda designed entirely to help the small practitioner. The Council was interested in the small practitioner—very interested—and would try to help them in every practical way, but in his considered view registration was not the correct way and would not help.

Mr. Crawford said that surely the effect of registration would be to limit the number of unqualified practitioners in the future. Now they were flooding in without any restraint whatsoever. Surely that was an important aspect.

The President answered that it was impossible to get a definition of accountancy which would prevent that. Nobody was, in fact, prevented from drawing up a will because solicitors had an Act. His honest belief was that there was not the slightest chance of getting a measure through which would help them. He had been strongly in favour of registration when he first came on the Council, but hard facts had proved to him that it was just not possible.

Mr. R. Barlow, V.R.D., F.C.A., said that if it was difficult it was surely so much the more worthwhile trying to achieve. As a country practitioner, he knew the problems that Mr. Collier had encountered—he had met them too. It was a matter of some importance to the country practitioner because nine-tenths of his practice had absolutely nothing to do with company work—even exempt private companies.

The President repeated that in his opinion it was not practicable. The fact that a thing was difficult had never prevented him from trying.

Mr. Collier said there was a very strong body of opinion amongst practitioners that it would be a good thing if the Council addressed themselves to this matter. After all, 1953 was eight years ago, and many problems had changed since that time. They would regard registration as being in the public interest, and there was a strong case for it. If, in fact, members of the Council did not believe it would be in the public interest to have some tightening up, he suggested that they go along to the Board of Trade sitting at Bow Street and find out what the people there thought of accountants at the end of 300 prosecutions in a day.

The President said the attitude of the Council was still as stated by Sir Thomas Robson at the annual meeting in 1953—that if some practical proposal for a new solution were to become available, they would be happy to co-operate with the other recognised bodies in examining it, but that merely to retread ground which had already been thoroughly explored would not serve a useful purpose. He had not consulted his colleagues, but if there was a very strong demand in that meeting for the matter to be referred back to a committee of the Council, he would not oppose that.

Mr. Collier said that the gathering could not be considered representative of the country members, as the majority of them could not spare the time to come to London. The Council must be unaware of many of the activities of unqualified practitioners.

The President said the Council was well aware of the problem; the difficulty was to find a solution. He had not consulted his colleagues, but he was perfectly willing, if Mr. Collier so wished, that the point should be referred back to the General Purposes Committee.

Mr. Collier said he would like to move that that should be done. He felt that there was a very strong body of opinion, not only on registration but also on the position of the small practitioners.

The President replied that the position of the small practitioners was considered at practically every meeting of the Council: it was constantly under review.

Mr. Collier expressed bewilderment that after all that constant consideration members were given no guidance or leadership—that was what they wanted. It was a matter of life and death to the small practitioner.

The President asked for one practical suggestion of what members wanted the Council to do. His remarks round the country had produced one practical suggestion, which was under consideration and which he thought might be a great help to the small practitioner. But he would very much welcome any others.

Mr. Crawford suggested the solution was to have some small practitioners in the Council Chamber.

The President replied that not all members of the Council were members of large firms, by any means. He was told that it was exceptionally difficult to get any small practitioner to take any part in district affairs, but the proper place to get this raised surely was the districts. If the small practitioner could get on to the Council through the normal channels of the districts he would be very welcome.

When the President put to the meeting the resolution for the adoption of the report and accounts it was carried unanimously.

The appointment of five members of the Council, Mr. J. F. Allan, Mr. E. H. Davison, Mr. E. N. Macdonald, Mr J. D. Russell and Mr. F. J. Weeks, to fill vacancies arising since the last annual meeting was confirmed.

The meeting then turned to the election of eleven members of the Council. Eleven members who under bye-law 5 retired by rotation offered themselves for re-election. In addition Mr. Robert Barlow, V.R.D., F.C.A. (Chelmsford) had been nominated by notice given under bye-law 7 and signed by eleven members of the Institute.

Mr. W. A. C. Smelt, O.B.E., F.C.A., expressed the opinion that the Council had been rather undemocratic in the way the notice had been phrased. The President had spoken of welcoming members of small firms. It was clear that here the Council was saying: "These are the gentlemen nominated for election and we only want the first eleven."

The President explained that there were fifty-five seats on the Council, of which ten were reserved for the ex-Society Council members as part of the integration scheme, and five for members not in practice. The remaining forty were allocated over districts: so many from Birmingham, so many from London, and so on. When there was a vacancy the district concerned was consulted and it put forward nominees, usually two, in the order of preference, and almost universally the top nominee was elected to the Council. Then the name came up for confirmation at the next annual meeting. When the member concerned came up for re-election, the district was again consulted. So if somebody came up through a different channel, it meant that some district would be deprived of its representation. It was for that reason, and not because they had anything against Mr. Barlow, that they opposed his election.

The President asked Mr. Barlow whether he wished to stand for election, and Mr. Barlow replied that he did.

The President then directed that the voting papers should be completed and passed to the Institute's auditors, who were taking charge of the collection and counting of votes.

The President suggested that while the poll was being taken the meeting should transact the remaining business, and this was agreed to.

On the proposition of Mr. Crawford, seconded by Mr. Collier, the auditors, Mr. L. W. Bingham, F.C.A., and Mr. Leonard Pells, M.A., F.C.A., were re-appointed.

The President then moved: "That this meeting approves the action of the Council in having given 1,000 guineas from the funds of the Institute to The Leo T. Little Memorial Fund."

This was seconded by the Vice-President and unanimously approved.

The meeting was then adjourned to await the counting of votes; and a special meeting was held (see report on this page).

After the annual meeting had been resumed, the President was handed a statement by the auditors giving the result of the voting for election of members of the Council, which the President read as follows: Mr. T. A. H. Baynes, 188; Mr. D. A. Clarke, 189; Mr. W. G. Densem, 193; Mr. P. F. Granger, 186; Mr. H. O. Johnson, 182; Mr. H. L. Layton, 181; Mr. C. U. Peat, 182; Mr. J. E. Talbot, 179; Mr. A. H. Walton, 179; Mr. Victor Walton, 175; Mr. E. F. G. Whinney, 183, and Mr. Robert Barlow, 71 votes. The President accordingly declared the first eleven elected.

Mr. Barlow asked the President if he would be prepared to see whether there were enough members present who were willing to support him (Mr. Barlow) in demanding a poll of all members. The President said that twenty-five signatures were required in accordance with the bye-laws. At Mr. Barlow's request the President asked for a show of hands by those who would support a poll, and there were not twenty-five members present who were prepared to do so.

Mr. J. M. Harvey, M.B.E., F.C.A., said that to represent a district society as its President for a year was a great honour, but when it led to such an invitation as he had received to address them, it was an even greater privilege.

Mr. Pears, as President during the past year, had, in carrying out his many arduous duties, maintained the very high standard set by his predecessors. He had travelled far and wide: north, south, east—east as far as Pakistan—and as far west as Broadcasting House.

During the year, the introduction of the Public Relations Committee as a standing committee of the Council and the progress of the Parker Committee had been stepping stones in the development of the profession in which Mr. Pears had taken especial interest, and his encouragement to members to require fees of a proper standard was greatly appreciated.

It had been the privilege of some of those present to be the guests, to be the fellow guests and also to be the hosts of Mr. Pears, and they all knew his very friendly approach. It must be the daily dose of tennis, quite apart from his natural charm, that made him so even tempered in the midst of exacting commitments.

The President would surely be able to review the past year in the knowledge of great achievement, said Mr. Harvey; and he thanked him for his careful and friendly conduct of the meeting. With the greatest possible pleasure he moved, put to the meeting and asked the President to accept, a very sincere vote of thanks. (*Carried with acclamation.*)

The President thanked Mr. Harvey very much indeed for his kind remarks. It had been a great pleasure to go round to all the districts and to see Mr. Harvey and the other district Presidents. Personally he liked criticism, and it was very valuable that members should come to the meeting and raise points, even although he did not always agree with them. (*Applause.*)

Special Meeting

AT A SPECIAL meeting of the Institute held on May 3 at the Chartered Insurance Institute, London, E.C.2, two resolutions were passed (in accordance with Clauses 25 and 30 of the supplemental Royal Charter) for the variation of Clauses 31 and 18 of the supplemental Royal Charter and certain of the bye-laws. The confirmatory meeting will be held on June 7, at 2 p.m. at the same place.

The general effect of Resolution No. 1 is as follows:

(*a*) most of the references to "England and Wales" and "England or Wales" in the Royal Charters and bye-laws will be replaced by references to "the United Kingdom"; the purpose is to enable an associate or a fellow in practice as a public accountant in Scotland or Northern Ireland to take articled clerks under precisely the same conditions as an associate or fellow in practice in England or Wales;

(*b*) as a consequence of (*a*), all members resident in Scotland or Northern Ireland (whether or not in practice) will pay annual subscriptions at the same rates as those of members resident in England or Wales instead of, as hitherto, the rates applicable to overseas members;

(*c*) "practice" will mean practice as a public accountant in any part of the world (instead of in England or Wales only) except where otherwise provided.

Proposing the first resolution, the President explained that it would enable members in Scotland and Northern Ireland to take articled clerks: the matter had been raised at last year's annual general meeting, and he was glad to say that after consultations with the Scottish and Irish Institutes they had been able to reach this very satisfactory arrangement. The Vice-President seconded the resolution and it was carried unanimously.

The President then put the second resolution, which covers an alteration in Bye-Law 63 to enable former regular officers of the Forces to be granted exemption from the Preliminary examination and a reduction in their period of service under articles in the same way as candidates with war service. The Vice-President seconded, and this resolution also was carried unanimously.

Meetings of the Council

AT SPECIAL AND ordinary meetings of the Council held on Wednesday, May 3, 1961, at the Hall of the Institute, Moorgate Place, London, E.C.2, there were present: Mr. S. J. Pears, President, in the chair; Mr. P. F. Granger, Vice-President; Mr. J. F. Allan, Mr. E. Baldry, O.B.E., Mr. C. Percy Barrowcliff, Mr. W. L. Barrows, Mr. T. A. Hamilton Baynes, Mr. J. H. Bell, Mr. H. A. Benson, C.B.E., Mr. P. F. Carpenter, Sir William Carrington, Mr. G. T. E. Chamberlain, Mr. D. A. Clarke, Mr. J. Clayton, Mr. C. Croxton-Smith, Mr. E. Hay Davison, Mr. W. G. Densem, Mr. S. Dixon, Mr. W. W. Fea, Sir Harold Gillett, Bt., M.C., Mr. J. Godfrey, Mr. G. G. G. Goult, Mr. L. C. Hawkins, Mr. J. S. Heaton, Mr. D. V. House, Mr. J. A. Jackson, Mr. H. O. Johnson, Mr. W. H. Lawson, C.B.E., Mr. H. L. Layton, Mr. R. B. Leech, M.B.E., Mr. E. N. Macdonald, D.F.C., Mr. R. McNeil, Mr. J. H. Mann, M.B.E., Mr. R. P. Matthews, Mr. Bertram Nelson, C.B.E., Mr. W. E. Parker, C.B.E., Mr. C. U. Peat, M.C., Mr. F. E. Price, Mr. L. W. Robson, Sir Thomas Robson, M.B.E., Mr. J. D. Russell, Mr. D. Steele, Mr. C. M. Strachan, O.B.E., Mr. J. E. Talbot, Mr. A. H. Walton, Mr. V. Walton, Mr. F. J. Weeks, Mr. M. Wheatley Jones, Mr. E. F. G. Whinney, Mr. J. C. Montgomery Williams, Mr. R. P. Winter, C.B.E., M.C., Mr. E. K. Wright, Sir Richard Yeabsley, C.B.E.

Welcome to New Members

The President welcomed Mr. J. F. Allan, Mr. E. Hay Davison and Mr. F. J. Weeks, who were attending for the first time as members of the Council.

Eighth International Congress of Accountants

The Council authorised the preparation and issue to members of a notice giving details of the Eighth International Congress of Accountants to be held in New York from September 23 to 27, 1962.

The Institute of Chartered Accountants of Manitoba

The Council resolved that a message of congratulations and good wishes be sent to the Institute of Chartered Accountants of Manitoba on the occasion of the 75th Anniversary of its incorporation on May 28, 1886.

Overseas Visitor

At the conclusion of its meeting the Council was pleased to welcome Mr. J. A. Wilson, the President of the Canadian Institute of Chartered Accountants, who was on a visit to this country.

Inland Revenue: Treatment of stock-in-trade and work in progress for tax purposes

The President reported on a discussion which he and Sir William Carrington, F.C.A., had had with the Board of Inland Revenue, and arising out of the discussion a letter had been received from the Chairman of the Board, Sir Alexander Johnston, K.B.E., C.B., regarding the Council's Recommendation 22 on the treatment of stock-in-trade and work in progress in financial accounts. The Council authorised publication of Sir Alexander Johnston's letter, which reads as follows:

"1. We agreed in our recent discussions about stock valuation that it would be useful if I set out the Revenue's attitude to the Institute's Recommendation 22 on the treatment of stock-in-trade and work in progress in financial accounts.

2. We welcome the guidance given in the Recommendation and find it largely acceptable for tax purposes. I should, however, like to make some comment on the question of overheads, and we have certain reservations to record in regard to 'net realisable value' and 'replacement price.'

3. *Overheads.* The decision of the House of Lords in the *Duple Motor Bodies* case has given prominence to the 'direct cost' method, i.e. the exclusion of all overheads in computing the cost of stock. I think, however, we are agreed that the decision should not be taken as encouraging the exclusion of overheads where there has been no relevant change of circumstances. The House of Lords stressed the importance of consistency and the need to show good reason for any change. The Recommendation also is emphatic on this point (paragraph 33).

4. Our information, which you and Sir William Carrington confirmed from your own experience, is that in fact the great majority of manufacturing concerns include some measure of overhead expenditure in computing the cost of stock. We were glad to hear that in your personal opinion variable overheads ought to be included in the general run of manufacturing businesses, and indeed that in a substantial number of cases it is appropriate to include fixed overheads—some or all, depending on the circumstances (excluding, of course, selling and finance and other expenses which do not relate to the bringing of stock to its existing condition and location). We, for our part, agree that there are circumstances in which the proportion of fixed overheads to be included may need to be adjusted by reference to the normal level of activity.

5. *Net realisable value.* In general we accept what is said in the Recommendation on this subject. Our reservation relates to the deduction which is recommended for 'all expenditure to be incurred on or before disposal' (paragraph 13). We do not agree, as a matter of principle, that general selling costs to be incurred in the future should be allowed for. This, however, does not mean that we should not be prepared in practice, where the circumstances warrant it, to accept a deduction for specific identifiable items of expenditure directly connected with the stock in question, including provision for commission and brokerage which have to be incurred on sale.

6. *Replacement price.* The general principle as stated by the Courts is that stock may be valued below cost in order to anticipate a loss; the advice given in the Recommendation is also to the effect that provision should be made for expected losses. Our objection to replacement price is that it may be less than actual cost where no loss is expected but only a smaller profit, and for that reason we do not consider that it is generally acceptable for tax purposes as an alternative to actual cost or net realisable value.

7. It is, however, already the Revenue's practice to accept valuation at replacement price in the case of stocks of raw materials awaiting processing, since in this case replacement price is substantially the same as net realisable value. You asked us to go further than this, and drew our attention to certain industries in which the value of the raw material content forms a high proportion of the total value of stock in process of production and the price of the raw material is liable to considerable fluctuation. You pointed out that in these cases it is common practice to make rapid changes in selling prices to accord with changes in the price of the raw material. In view of what you said, we should be prepared in cases of this kind, where the relevant items are not covered by firm sales contracts, to accept replacement price for stock in process of production and finished stock as well as for stocks of raw material."

Refusal to Register Articles of Clerkship

An articled clerk whose articles have been cancelled because of theft by him has been informed that further articles to which he is a party will not be registered.

May 1961 Examinations

Date of notifying results to candidates

With effect from the May 1961 Intermediate and Final examinations the posting of individual results to candidates will be brought forward. This earlier notification will be limited to informing candidates whether they have passed or failed the examination and will not be for publication. Successful candidates will later receive a formal notice of their passing the examination, details of any prize awarded and, in the case of candidates at the Intermediate examination, the place taken; unsuccessful candidates will later receive a formal notice showing their performance in individual papers. In both cases these notices will be sent as soon as possible after the results of the examinations are known.

The following shows the timetable

which, subject to unforeseen circumstances, relates to the May 1961 Intermediate and Final examinations (with a comparison with the arrangements as notified in the booklet *General Information and Syllabus of Examinations*):

	Revised Programme	*Present Programme*
Posting of individual results to candidates (limited to passing and failing only)	For receipt by post on Thursday, July 27, 1961 (or as soon as possible thereafter)	
Pass notices to successful candidates and failure notices to unsuccessful candidates	For receipt by post on Saturday, August 12, 1961	(For receipt by post on Saturday, August 5, 1961)
Publication of printed list of successful candidates	12 noon on Wednesday, August 16, 1961	(12 noon on Wednesday, August 9, 1961)

No change is proposed in the present arrangements relating to the notification of results to candidates at the May 1961 Preliminary examination of the Institute or at the May 1961 Final examination of the Society. Candidates at these examinations may therefore expect to receive individual notices by post as follows:

Preliminary examination of the Institute	Friday, July 14, 1961
Final examination of the Society	Thursday, July 27, 1961

In the case of these two examinations the names of successful candidates will be published with those of successful candidates at the May 1961 Intermediate and Final examinations of the Institute, at 12 noon on Wednesday, August 16, 1961.

Registration of Articles

The Secretary reported the registration of 123 articles of clerkship during the last month, the total number since January 1, 1961, being 862.

Admissions to Membership

The following were admitted to membership of the Institute:

ASHCROFT, THOMAS, A.C.A., *a*1961; 10 Ruskin Street, Preston.

§BANCHETTI, LAMBERTO VINCENZO ALBINO, A.S.A.A., *a*1961; 10 Cheltondale Court, Cor. Cheltondale and Dovedale Roads, Cheltondale, Johannesburg.

CLARK, STANLEY, A.C.A., *a*1961; 171 Windsor Road, Ilford, Essex.

DAVIES, PETER, A.C.A., *a*1961; 3 Rosina Grove, Grimsby.

FISHER, DAVID STANLEY, A.C.A., *a*1961; 32 Cricketfield Grove, Leigh-on-Sea, Essex.

HARBOTTLE, PHILIP RICHARD MILNES, B.A., A.C.A., *a*1961; 129 Middle Drive, Darras Hall, Northumberland.

HARKEY, THOMAS ROBERT GODFREY, A.C.A., *a*1961; with Spicer & Pegler, 19 Fenchurch Street, London, E.C.3.

KEMP, JOHN STEVENSON, A.C.A., *a*1961; 16 Skirbeck Road, Gillshill, Kingston upon Hull.

KENT, RONALD VICTOR, A.C.A., *a*1961; 80 Waldegrave Road, Green Lanes, Goodmayes, Essex.

§MULLER, ALFONS, A.S.A.A., *a*1961; 8 Hyde Park Terrace, Pretoria Road, Craighall Park, Johannesburg.

One application for admission to membership was refused.

Fellowship

The Council acceded to applications from 12 associates to become fellows under clause 6 of the supplemental Royal Charter.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

ADLER, BERNARD, A.C.A., *a*1960; Bernard Adler & Co., 17 Fairfield Avenue, Edgware, Middlesex.

AKESTER, JAMES RAYMOND, A.C.A., *aS*1951; Rhodes, Stringer, Ingham, Clare & Co., 39 and 45 Well Street, Bradford 1.

ALLSOPP, ARTHUR LEONARD, F.C.A., *a*1946; *Bradford, Allsopp & Co., 19 College Hill, Shrewsbury.

ANTHONY, HUGH DENE, A.C.A., *a*1958; Edmund D. White & Sons, 378/80 Salisbury House, London Wall, London, E.C.2, and at Liverpool.

ARMSTRONG, NORMAN ALBERT, A.C.A., *a*1958; Harry L. Price & Co., 47 Mosley Street, Manchester 2.

AYNGE, GEORGE LAW, F.C.A., *a*1930; 80 Booth Road, Waterfoot, Rossendale, Lancs.

BAILEY, MALCOLM GEOFFREY LOWNDES, F.C.A., *a*1938; †Jenks Percival & Co., 14 Finsbury Circus, London, E.C.2.

BASKIN, RONALD, A.C.A., *a*1952; N. N. Pampel, Baskin & Co., 130 High Holborn, London, W.C.1.

BEIRNE, JOHN, A.C.A., *a*1952; †Fawcett, Brown & Pinniger, Windover House, St. Ann Street, Salisbury, Wilts.

BLADEN, ROBERT CLEMENT, A.C.A., *a*1953; Bourner, Bullock & Co., Federation House, Station Road, Stoke-on-Trent; for other towns see Bourner, Bullock & Co.

BODDINGTON, RICHARD STEWART, M.A., A.C.A., *a*1957; Garnett, Crewdson & Co., 7 Norfolk Street and 61 Brown Street, Manchester 2.

BOWLES, CHARLES HENRY, F.C.A., *aS*1948; †Wall & Tanfield and Fox & Co., 4 Vicarage Road, Edgbaston, Birmingham 15, and at Dudley.

BRAZIER, ROBERT WILLIAM, F.C.A., *aS*1949; †Deloitte, Plender, Griffiths & Co., 5 London Wall Buildings, Finsbury Circus, London, E.C.2.

BUTLER, DAVID, A.C.A., *a*1954; Peters, Elworthy & Moore, Norwich Union Buildings, Downing Street, Cambridge, and at Saffron Walden.

CANN, WALTER CYRIL, A.C.A., *a*1951; Reads, Cocke & Watson, Leith House, 47 Gresham Street, London, E.C.2; also at Guernsey, G. N. Read, Son & Cocke.

CHADWICK, RAYMOND LESLIE, A.C.A., *a*1956; Cadwallader & Co., Eagle House, Severn Street, Welshpool, Montgomeryshire.

CHAPPELL, KENNETH, M.A., A.C.A., *a*1960; Heathcote & Coleman, 69 Harborne Road, Edgbaston, Birmingham 15.

CHARLTON, ROBERT JOSEPH, B.A.(COM.), A.C.A., *a*1957; Harry L. Price & Co., 47 Mosley Street, Manchester 2.

CHEETHAM, JACK, A.C.A., *aS*1952; Bourner, Bullock & Co., Federation House, Station Road, Stoke-on-Trent; for other towns see Bourner, Bullock & Co.

COWLEY, GEORGE RIDGEWAY, A.C.A., *a*1953; 212 Verdant Lane, London, S.E.6.

CROFT, ALBERT HENRY, A.C.A., *a*1956; George Bowthorpe & Co., 47 Croydon Road, Caterham, Surrey.

CUMMINGS, KEITH DUDLEY, A.C.A., *a*1958; *Rogers, Son & Spencer, Bank Chambers, 1 Bluecoat Street, Nottingham.

DAVIES, DAVID AUSTIN, A.C.A., *a*1959; Thomas & Honeywell, Old Greystones, Newbridge, Mon., and at Usk.

DONOVAN, MICHAEL JAMES, A.C.A., *a*1956; Kingsford, Garlant & Co., 23 Essex Street, Strand, London, W.C.2, and at Maidstone.

DRINKWATER, MICHAEL SAMUEL, A.C.A., *a*1957; Scattergood, Drinkwater & Co., and T. B. Scattergood & Co., 125 Edmund Street, Birmingham 3.

DUNNING, NORMAN, A.C.A., *a*1957; Robert Miller & Co., Jubilee Buildings, Newbottle Street, Houghton-le-Spring, Co. Durham.

EADES, COLIN WILLIAM, A.C.A., *a*1956; Weeks, Green & Co., 21 Cumberland Place, Southampton.

EDMEADES, THOMAS, A.C.A., *a*1960; Westcott, Maskall & Co., 33 Catherine Place, London, S.W.1.

EDWARDS, JOHN, F.C.A., *aS*1949; Crompton & Co., 42 Queen's Road, Coventry.

ELCOMBE, GRAHAM RALPH STUART, M.A., A.C.A., *a*1957; Reads, Cocke & Watson, Leith House, 47 Gresham Street, London, E.C.2; also at Guernsey, G. N. Read, Son & Cocke.

ELLISON, LEO JAMES, A.C.A., *a*1960; F. A. Whiteley & Co., 33 Rectory Road, Abbey Hey, Manchester 18, and at Hazel Grove.

FAUTLEY, JOHN BERNARD, A.C.A., *a*1956; *Fautley & Co., 276 Woodgrange Drive, Southend-on-Sea, Essex, and at Leigh-on-Sea.

FIELD, REGINALD HENRY, A.C.A., *aS*1953; H. Davies & Co., Tudor House, Broad Street, Wolverhampton.

FREEMAN, MICHAEL ASHER, A.C.A., *a*1959; Curitz, Littlestone, Freeman & Co., Cambria House, Wyndham Street, Bridgend, Glam.

FRY, JOHN, A.C.A., *a*1961; W. Rowlands, Fry & Son, 115 Moorgate, London, E.C.2, and at Whetstone.

GALLOP, LESLIE JAMES, A.C.A., *a*1951; †Dammers & McCormick, Abbotts Fee, Greenhill, Sherborne, Dorset.

GLEVE, JOHN LIONEL, A.C.A., *a*1954; Campbell & Co., 87 Tettenhall Road, Wolverhampton.

GRACE, CYRIL JOHN, A.C.A., *a*1955; "Rose Bungalow", Crown Avenue, Pitsea, Basildon, Essex.

GREENWOOD, ALAN, A.C.A., *a*1956; Kneeshaw, Moffatt & Co., 6 Grimshaw Street, Burnley, and at Blackpool.

GURNEY, JOHN MICHAEL ANTHONY, B.A., A.C.A., *a*1954; †Fawcett, Brown & Pinniger, Windover House, St. Ann Street, Salisbury, Wilts.

HAMMOND, EDWARD GLYN, A.C.A., *a*1960; E. W. Hammond, Raw & Co., Feethams South, 70 Victoria Road, Darlington.

HIBBERT, JAMES LAMBERT ROGER, A.C.A., *aS*1957; Wilson, Hibbert & Co., Savoy Chambers, Wellington Street, Stockport.

HOLLAND, JOHN CLIFFORD, A.C.A., *a*1952; Bourner, Bullock & Co., 17 Albion Street, Hanley, Stoke-on-Trent; for other towns

APPOINTMENTS VACANT

(*continued from page xxxiv, facing page 305*)

ACCOUNTANT: A leading firm of chartered accountants has a vacancy for a qualified man to manage one of the offices of its associated firm in Northern Rhodesia, and also vacancies for young qualified accountants for general work in that country. Initial contract for three years, renewable by agreement. A good starting salary will be paid together with fare out for wife. Applications in confidence to Box No. 42, c/o ACCOUNTANCY.

ACCOUNTANTS FOR EUROPE

International firm of Accountants invites applications for several vacancies in its European firm from young single Chartered Accountants. The work is varied and interesting and the prospects are excellent for those who wish to make a career on the Continent. Applications, with full particulars, to Box No. 50, c/o ACCOUNTANCY.

AUDIT CLERKS. Many vacancies waiting for Senior, Semi-senior or Junior. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate, E.C.2.

Bowaters

ACCOUNTANT

The Headquarters of this International Organisation requires a Chartered Accountant who will have special responsibility for Management Services in the fields of finance and administration for its United Kingdom interests.

The position is one that requires a practical appreciation of management reporting and other methods of control used by industry, and will provide excellent opportunities for promotion within the Organisation for an ambitious man in his thirties.

Please write giving brief details of experience to the Personnel Officer, THE BOWATER PAPER CORPORATION LIMITED, Bowater House, Knightsbridge, London, S.W.1.

BUILDING SOCIETY (Head Office, London) with expanding business has vacancies for men with Accountancy or Secretarial qualifications. The positions offered to suitable applicants are progressive and early promotions assured. Age 22–30. Write giving details of experience. Establishment Officer, Box No. 43, c/o ACCOUNTANCY.

CHARTERED ACCOUNTANT FOR AUSTRALIA

A large firm of Chartered Accountants, with offices in all the main cities of Australia and overseas affiliations, requires a qualified Chartered Accountant aged 25–30. A salary of £A1,500 to £A2,000 will be paid dependent upon experience. Prospects of advancement are excellent in this firm.

Applications should be made in the first instance to ROBSON, MORROW & Co., 59 New Cavendish Street, London, W.1, quoting reference 36/EVN/51.

CHARTERED ACCOUNTANT

Chief Executive of National Retail Group requires Chartered Accountant, age 30–35, as Personal Assistant in London Headquarters. Public School education, University Degree, Management Accounting experience in large organisations an advantage. Salary not less than £3,000 per annum with excellent prospects. Pension Scheme, etc. Applications in confidence to Box No. 44, c/o ACCOUNTANCY.

CHARTERED ACCOUNTANTS in Nottingham require senior audit clerks, preferably qualified. Apply to STANLEY BLYTHEN & COMPANY, 12 Low Pavement, Nottingham.

CHARTERED ACCOUNTANTS, London and overseas, require a qualified accountant with good post-qualification experience for their London office aged 25 to 35. Excellent salary and managerial prospects. Box No. 49, c/o ACCOUNTANCY.

Geigy

CHARTERED ACCOUNTANT OR ECONOMIST

Geigy (Holdings) Limited are to appoint a young CHARTERED ACCOUNTANT OR ECONOMIST to investigate and report upon the financial implications of past and future capital expenditure within the United Kingdom Group of Geigy Companies.

The successful candidate will desirably be under the age of 30, but applications will be considered from persons up to the age of 35. Applicants must, since qualification, have had at least 2 years' industrial experience or experience with a large firm of chartered accountants.

Apply to Personnel Officer for further particulars and application form, giving brief details only of age, qualifications and experience and quoting Ref. G.6/AC

Geigy The Geigy Company Limited,
Rhodes Middleton Manchester.

CHARTERED ACCOUNTANTS, London, W.1, require Senior audit staff. Varied practice of medium size. Holiday arrangements respected. Five-day week. Write, stating experience, age and salary required, to Box No. 46, c/o ACCOUNTANCY.

CHARTERED ACCOUNTANTS, medium-sized, cheerful Holborn firm with very varied practice, seek semi-senior clerks who can justify above-average salaries for posts offering promotion to senior status as soon as capacity is shown and regardless of youth. Good education and sound training and experience are needed, but useless without real ambition, imagination and willingness to accept responsibility and work hard. Age and short details of experience to BASIL HALLETT & Co., 51–2 Chancery Lane, W.C.2.

CHARTERED ACCOUNTANTS — Price Waterhouse & Co., 3 Frederick's Place, Old Jewry, London, E.C.2, have vacancies for young qualified accountants. Excellent prospects and opportunities for broadening experience in the profession. 5-day week, luncheon vouchers and pension scheme.

CHARTERED ACCOUNTANTS, with practices in London and overseas, require a newly-qualified chartered accountant of good ability for their London office. Commencing salary up to £1,000 per annum (according to ability) and good prospects. May finalists considered subject to qualification. Box No. 48, c/o ACCOUNTANCY.

CHIEF ACCOUNTANT FOR KENYA

THE KENYA SPECIAL CROPS DEVELOPMENT AUTHORITY requires a Qualified Accountant to assume the duties of Chief Accountant of this Authority which has been formed to encourage and manage the growing of Tea by African Smallholders.

Two year contract, salary £2,500 p.a., plus housing allowance £480. Passages paid for man and wife.

Candidates, preferably aged 35–40, must have good experience in Mechanised Accounts and Management Accounting generally.

Applications to Peat, Marwick, Mitchell & Co., 11 Ironmonger Lane, London, E.C.2.

CLOTHING Manufacturers require Accountant to take charge of the accounts departments of two medium-sized expanding Companies. This position offers an excellent opportunity to a young Chartered Accountant wishing to make his career in industry to work with a young go-ahead management. Commencing salary £1,000 p.a. Reply giving full details to MELLOR, SNAPE & Co., Old Colony House, South King Street, Manchester 2.

DELOITTE, PLENDER, GRIFFITHS & CO., Paris office, require young qualified accountants for permanent positions offering wide variety of experience in British, American and Continental techniques. Write 39 RUE CAMBON, PARIS, 1er (France).

EAST AFRICA: Vacancies exist for young chartered accountants for varied professional work in Nairobi and other towns. Salary £1,750 to £1,850 according to age and experience with increments for ability. Initial contract four years renewable by agreement with good leave entitlement. Air or sea passages for family including one home leave during contract. Pension and medical aid schemes. Prospects of advancement are good but if second contract not entered into a position in another office at home or abroad would normally be offered if service is satisfactory. Write in confidence to Box No. 41, c/o ACCOUNTANCY.

FAIRBAIRN LAWSON COMBE BARBOUR LIMITED have a vacancy for an Accountant, not necessarily qualified, for a large Engineering Works. Applicants will be required to keep a complete set of books of an expanding Subsidiary Company and provide statistical information. Salary by arrangement. Application to Personnel Manager, FAIRBAIRN LAWSON COMBE BARBOUR LIMITED, P.O. Box 32, Leeds.

JLT GROUP

CHARTERED ACCOUNTANT

required for a rapidly expanding Group of Companies in the Electronics Industry to

ASSIST THE CHIEF ACCOUNTANT

with the introduction and development of

MANAGEMENT ACCOUNTING
BUDGETARY AND COST CONTROL

STARTING SALARY: £1,200—£1,500 per annum. There is also a non-contributory Pension Scheme and generous welfare provisions.

LOCATION: Head Office, Bushey Heath, Herts. (between Stanmore and Watford).

REQUIREMENTS: Youth; a keen interest and some practical experience in the field of Management Accounting; a good education, preferably a graduate.

Apply to:
THE CHIEF ACCOUNTANT—marked private

J. LANGHAM THOMPSON LTD.
176, HIGH ROAD, BUSHEY HEATH, HERTS.

ESSO

have vacancies for Chartered Accountants, preferable age limit 35.

An interesting and rewarding career is offered to those with potential. Based on London, the work will initially involve travel in the United Kingdom for a limited period, with a full reimbursement of expenses.

Contributory Pension Plan, Sickness and Accident Benefit Scheme, and comprehensive Staff appraisal and development programme.

Please apply in writing to

The Manager, Recruitment and Training,
ESSO PETROLEUM CO. LTD.,
16 Charles II Street, London, S.W.1,

quoting Reference 312./AY.

NASSAU, BAHAMAS

Peat, Marwick, Mitchell & Co. have a vacancy in their office in Nassau, Bahamas, for a Chartered Accountant with good professional background which preferably should include experience of corporate matters. This position offers excellent prospects for a man keen to make a career within the profession and who is interested in the broader aspects of professional work. Initial salary £2,000 per annum. Three-year contract with air passages paid. There are no income taxes in the Bahamas and social and climatic conditions are excellent. Reply to PEAT, MARWICK, MITCHELL & Co., 11 Ironmonger Lane, London, E.C.2, giving full personal details.

FIRE LOSS ADJUSTERS: ELLIS & BUCKLE LTD., 44 Leadenhall Street, London, E.C.3, require newly qualified Accountant or A.C.W.A. to concentrate on consequential loss and other claims. Interesting and varied career dealing with people rather than documents. Progressive post leading to rapid advance. Pension scheme. Medical scheme. Replies will be treated as personal and confidential if addressed to C. K. Buckle, Esq.

GERARD VAN de LINDE & SON, 26–28 Fenchurch Street, London, E.C.3, have vacancies on their Audit Staff for young Qualified Accountants. May candidates considered. Five-day week. Pension scheme. Apply to STAFF PARTNER.

HARMOOD BANNER, LEWIS & MOUNSEY require Qualified Accountants for their Liverpool Office. Salary according to age and experience. Pension scheme. Luncheon vouchers. Apply in writing to 24 North John Street, Liverpool 2.

NATIONAL SERVICEMEN. Qualified men who are about to be released from National Service and who wish to widen their professional experience before deciding whether to remain in the profession or to enter commerce are invited to apply to a well-known firm of City Chartered Accountants for positions on their audit staff. Box No. 45, c/o ACCOUNTANCY.

OPPORTUNITIES FOR YOUNG ACCOUNTANTS

To strengthen the accounting service to our civil contracting organisation we require additional Accountants, preferably qualified, in the age range 23/35 years at our main Accounts Department, Doncaster.

In addition to prospects of advancement within the Department there will be experience of Punch Card Machine Accounting, and our world wide operations provide opportunities for overseas posts from time to time.

Previous industrial experience is desirable but not essential. Commencing salary in region £750 to £1,100 per annum depending upon qualifications and experience.

Please apply giving full details to:
The Personnel Officer,
THE CEMENTATION COMPANY LIMITED
BENTLEY WORKS, DONCASTER.

(continued on page xxxvii, facing page 318)

see Bourner, Bullock & Co.

HOPKINS, ROBERT DAVID, A.C.A., *a*1961; James Todd & Co., 781 Salisbury House, London Wall, London, E.C.2, and at Chichester.

HUGHES, GEOFFREY BRIAN CLIFFORD, M.A., A.C.A., *a*1953; Wilde, Ferguson-Davie & Miller, 120 Moorgate, London, E.C.2, and C. J. Hughes & Co., 27/28 Finsbury Square, London, E.C.2.

JOHNSTONE, DONALD PETER, A.C.A., *aS*1953; Bourner, Bullock & Co., Federation House, Station Road, Stoke-on-Trent, for other towns see Bourner, Bullock & Co.

JONES, ERIC ALFRED CRAWFORD, F.C.A., *a*1935; Kemp, Chatteris & Co., St. Swithin's House, Walbrook, London, E.C.4, and at Port Louis, Mauritius.

JONES, JOHN TREVOR, A.C.A., *a*1958; Kneeshaw, Moffatt & Co., 6 Grimshaw Street, Burnley, and at Blackpool.

KINNEAR, KENNETH FRANCIS, A.C.A., *a*1954; Ridsdale, Cozens & Purslow, Hatherton Buildings, Hatherton Road, Walsall.

MCALLISTER, GORDON, F.C.A., *aS*1948; Martin, Farlow & Co., 27/28 Finsbury Square, London, E.C.2.

MCAULEY, DAVID CHARLES, B.SC.(ECON.), A.C.A., *a*1960; James Todd & Co., 781 Salisbury House, London Wall, London, E.C.2, and at Chichester.

MARSDEN, KEITH, F.C.A., *aS*1947; Jacques & Stirk, 9/11 Henry Street, Keighley, Yorks.

MILLER, CYRIL REGINALD, F.C.A., *a*1949; Bourner, Bullock & Co., Federation House, Station Road, Stoke-on-Trent; for other towns see Bourner, Bullock & Co.

MOORCRAFT, RONALD GORDON, A.C.A., *aS*1956; Pike, Russell & Co., Western Chambers, Western Road, Romford, Essex.

MUSKETT, BRIAN DAVID, A.C.A., *a*1959; Leslie Muskett & Co., 20 Wormwood Street, London, E.C.2.

MUSSON, WILLIAM JOHN, D.F.M., F.C.A., *a*1947; Freeman, Bream & Co., Bank Chambers, Town Hall Square, Leicester.

NORTH, HAROLD, A.C.A., *aS*1953; Beevers & Adgie, 23 Cheapside, Cleckheaton.

PAGE, DEREK GEORGE, A.C.A., *aS*1953; Lithgow, Nelson & Co., 39 New Broad Street, London, E.C.2, and at Liverpool and Southport.

PEARCE, JAMES PETER, F.C.A., *a*1949; 121 St. Peter's Street, Derby.

PINS, MICHAEL ALLAN, A.C.A., *a*1958; 14 Stafford Road, Southsea.

PLATT, BRYAN UNSWORTH, A.C.A., *a*1954; Cooper & Cooper, 10 & 12 Bowkers Row, Bolton, and at London and Manchester.

REES, HUGH ANTHONY, A.C.A., *aS*1955; Griffith & Miles, 28 Mackenzie Street, Slough.

ROBERTS, ANTHONY, A.C.A., *a*1957; Chaloner, Roberts & Co., 12 St. Peter's Square, Stockport.

ROSSI, DAVID MARTIN, A.C.A., *a*1960; Rossi & Rossi, 60 London Street, Norwich, Norfolk, NOR 02E, and at Diss.

SAVILLE, ROBERT, F.C.A., *a*1931; Bourner, Bullock & Co., 17 Albion Street, Hanley, Stoke-on-Trent; for other towns see Bourner, Bullock & Co.

SHADBOLT, WILLIAM JOHN, A.C.A., *a*1959; T. & H. P. Bee, 26 Edward Street, Blackpool, and at Fleetwood.

SHEENA, ABRAHAM ALBERT, A.C.A., *a*1961; Maurice Apple & Co., 1 Hyde Park Place, Marble Arch, London, W.2.

SMITH, MICHAEL ROBERT, A.C.A., *a*1958; E. Croft & Co., 9 Northumberland Street, Morecambe, Lancs.

SPENCER, DUDLEY VALENTINE, F.C.A., *a*1948; Scotter & Co., 2 Story Street, Hull.

STOTT, KENNETH ENTWISTLE, A.C.A., *aS*1952; Cadwallader & Co., Eagle House, Severn Street, Welshpool.

SUTCLIFFE, JAMES NORMAN, F.C.A., *aS*1948; Jacques & Stirk, 9 Henry Street, Keighley, Yorks.

THOMAS, GORDON GERALD LLOYD, A.C.A., *a*1961; Gordon Thomas & Pickard, 7/10 Oxford Buildings, Lower Union Street, Swansea, and at Cardiff.

VERRALL, PHILIP, A.C.A., *a*1952; Holmes, Price & Worley, 30 Gildredge Road, and 21 Gildredge Road, Eastbourne, and at Hailsham.

WALKDEN, CLIFFORD, A.C.A., *a*1951; †Jenks, Percival & Co., 14 Finsbury Circus, London, E.C.2.

WALSH, CLIFFORD, A.C.A., *a*1961; Grundy, Middleton & Co., 34 Princess Street, Manchester 1.

WATSON, DAVID CYRIL CLIFFORD, A.C.A., *a*1958; Holmes, Price & Worley, 32 North Street, Hailsham, Sussex, and at Eastbourne.

WICK, IAN STUART, A.C.A., *a*1959; Westcott, Maskall & Co., 33 Catherine Place, London, S.W.1.

WILLIAMS, JOHN, F.C.A., *aS*1936; Tripp & Crane, 34 Fisherton Street, Salisbury, Wilts, and at Shaftesbury.

a indicates the year of admission to the Institute.
aS indicates the year of admission to the Society of Incorporated Accountants.
§ means 'incorporated accountant member'.
Firms not marked † or * are composed wholly of members of the Institute.
† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.
* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Admission to Membership under the Scheme of Integration

Subject to payment of the amount required by the Council, the Council acceded to an application from a former member of The Society of Incorporated Accountants for admission to membership of the Institute under clause 5 of the scheme of integration referred to in clause 34 of the supplemental Royal Charter.

Re-admission to Membership

One application by a former member of the Institute for re-admission to membership under clause 23 of the supplemental Royal Charter was acceded to.

Change of Name

The Secretary reported that the following changes of name have been made in the Institute's records:

MASCARENHAS, CAHEN KENNETH to MASKEY, CAHEN KENNETH.

NAHON, LEONE RODOLFO to NAHON, LEON RODOLFO.

Resignation

The Council accepted the resignation from membership of the Institute of:

HAYMAN, ALFRED GRAHAM ALDRED, F.C.A., 38 Lansdowne Road, Luton.

Death of Members

The Council received with regret the Secretary's report of the deaths of the following members:

ALLDRITT, WALTER FREDERICK, F.C.A., Birmingham.
BARLOW, JAMES, F.C.A., Bolton.
BONELLA, DONALD, A.C.A., Southampton.
BOTT, WILLIAM, F.C.A., Derby.
BROOKE-SMITH, EDWARD STANLEY HUNTLEY, F.C.A., Bristol.
BRYAN, PATRICIA ELIZABETH, A.C.A., London.
BUTTERWORTH, EDGAR, F.C.A., Manchester.
DOVERCOURT, THE LORD, F.C.A., London.
DUNKERLEY, JAMES ERIC BRIGGS, F.C.A., Hale Barnes, Cheshire.
FRANKLIN, HENRY WILLIAM, F.C.A., London.
HILL, PERCY WILLIAM, F.C.A., Leatherhead.
HILL, REGINALD DAY FINCH, O.B.E., F.C.A., Nice.
IMPEY, HOWARD JOSEPH, F.C.A., Oxford.
LITTLEJOHN, HERBERT STANLEY, F.C.A., London
LUNN, BERTRAM RAMSEY, A.C.A., North Shields.
MARKS, ISAAC HENRY, F.S.A.A., Melbourne.
OLDFIELD, CLAUDE HOUGHTON, F.C.A., London.
PALMER, FRED WALPOLE, F.C.A., Norwich.
RICHARDS, WILLIAM CYRIL, F.C.A., Wetherby.
RITSON, JOSEPH ARNOLD, F.C.A., Hollywood.
RUTTER, RICHARD GOLDEN, M.B.E., F.S.A.A., Whitby.
STIRLING, GILBERT AUGUSTUS, F.C.A., Bathurst, N.S.W.
STONEX, ARTHUR, F.C.A., Manchester.
TAYLOR, TOM BANNISTER, F.C.A., Burnley.
VINCENT, THOMAS HENRY, F.S.A.A., Chatham.
WILLCOX, JOHN THOMAS AMY, M.C., F.C.A., Jersey.
WILLIAMS, JOHN HENRY WILLEY, F.C.A., Slough.
WOOD, ARTHUR JAMES, F.C.A., New Malden.
WRIGHT, JOHN SCOTT, F.C.A., West Bromwich.

Finding and Decision of the Disciplinary Committee

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21, 1948, at a hearing held on April 5, 1961.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Richard William Lambeth, F.C.A., was at the General Session held in the Old Bailey on January 3, 1961, convicted on indictment for that he fraudulently converted to his own use and benefit the proceeds of a cheque for £850 received by him for or on account of a limited company; and for that he being the trustee of £204 and £800 with intent to defraud converted the same to his own use and benefit; and for that he being the trustee of £200 with intent to defraud converted £140 part of the same to his own use and benefit; and for that he being lawfully sworn made in an affidavit a statement which he knew to be false or did not believe to be true; and for that he with intent to defraud forged a receipt evidencing payment of money; so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Richard William Lambeth, F.C.A., had been proved and the Committee

ordered that Richard William Lambeth, F.C.A., of Cheltenham, be excluded from membership of the Institute.

Finding and Decision of the Appeal Committee

Finding and Decision of the Appeal Committee of the Council of the Institute appointed pursuant to bye-law 108 of the bye-laws appended to the supplemental Royal Charter of December 21, 1948, at a hearing held on May 2, 1961.

The Appeal Committee heard an appeal against the Decision of the Disciplinary Committee of the Council of the Institute upon a formal complaint preferred by the Investigation Committee of the Council to the Disciplinary Committee that John Randolph Kilpatrick, F.C.A., had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of subclause (3) of Clause 21 of the supplemental Royal Charter in that he signed the Accountants' Certificates required by Section 1 of the Solicitors Act, 1941, relating to the practice of a solicitor for each of three accounting periods which he knew or which he ought to have known were not accurate, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee affirmed the Finding of the Disciplinary Committee that the formal complaint against John Randolph Kilpatrick had been proved and the Committee affirmed the Decision of the Disciplinary Committee that John Randolph Kilpatrick, of 136 Newport Road, Cardiff, be excluded from membership of the Institute.

Taxation and Research Committee

THE ONE-HUNDRED-AND-FOURTEENTH meeting of the Taxation and Research Committee was held at the Institute on Thursday, April 27.

Present: Mr. G. N. Hunter (in the chair), Mr. F. W. Allaway, Mr. G. R. Appleyard, Mr. J. T. Barraclough, Mr. R. D. R. Bateman, M.B.E., Mr. C. V. Best, Mr. K. A. Buxton, Mr. J. Cartner, Mr. R. A. Chermside, Mr. L. H. Clark, Mr. S. M. Duncan, Mr. W. F. Edwards, Mr. N. Cassleton Elliott, Mr. E. S. Foden, Mr. C. R. P. Goodwin, Mr. N. B. Hart, O.B.E., T.D., Mr. H. Kirton, Mr. S. Kitchen, Mr. J. W. Margetts, Mr. S. A. Middleton, Mr. G. P. Morgan-Jones, Mr. R. D. Pearce, Mr. J. Perfect, Mr. A. H. Proud, Mr. D. W. Robertson, Mr. H. Robinson, Mr. C. Romer-Lee, Mr. H. Eden Smith, Mr. D. E. T. Tanfield, Mr. C. C. Taylor, Mr. A. G. Thomas, Mr. D. T. Veale, Mr. F. J. Weeks, Mr. T. S. Welch, and Mr. G. H. Yarnell, with the Secretary and Assistant Secretary.

Mr. F. J. Weeks, F.C.A.
The congratulations of the Committee were offered to Mr. F. J. Weeks on his election to the Council of the Institute.

Membership of the Committee
It was reported that Mr. A. Blackburn, F.C.A., and Mr. C. J. Peyton, F.C.A., had tendered their resignations from the Committee. It was also reported that Mr. W. Shuttleworth, F.C.A., had been nominated to membership of the Committee by the Liverpool Society of Chartered Accountants.

Sub-Committees
Reports were received from the following Standing Sub-Committees: General Advisory, Management Accounting, Taxation, Planning.

Reports were also received from four special sub-committees, and one new sub-committee was appointed.

Future Meetings
The next meeting of the Committee was arranged for Thursday, June 15, at 2 p.m., and further meetings have been provisionally arranged for: Thursdays, September 21, October 26 and December 14, 1961.

Chartered Accountants' Benevolent Association

Annual Meeting
THE 75TH ANNUAL general meeting of the Chartered Accountants' Benevolent Association was held on May 3 at the Chartered Insurance Institute, London, E.C.2.

Sir William Carrington, F.C.A., the President, said: Gentlemen, it is not my intention to make a speech. There is little that I could usefully add to what is contained in the annual report and accounts, which have been circulated. I had hoped to be able at this meeting to tell you that the Court had approved the scheme for the amalgamation of the Benevolent Fund of the Society of Incorporated Accountants with that of the Institute, but unfortunately the mills of the Chancery Division seem to grind exceedingly slowly and I am not in a position to tell you that this is an accomplished fact. Lawyers were briefed a long time ago, papers were supplied and so on, but the case has not yet come to a hearing and therefore I must leave it at that point.

When this amalgamation does become effective, it is the intention of the Executive Committee to send to every member of the Institute an appeal under two heads—one for you to join the Benevolent Association and the second, if you are already a member, asking you to persuade someone else to join. It is a very disquieting thought that although we have a membership of the Institute of over 34,000, we have less than 4,000 members of the Benevolent Association, and, as I say, we are going to try to remedy that as soon as this amalgamation has gone through.

With those few words I move the adoption of the report and accounts of the Benevolent Association for the year ending February 28, 1961, and perhaps the President of the Institute will second that.

Mr. S. John Pears, F.C.A. (President of the Institute), seconded the resolution, and it was carried unanimously.

The Hon. Auditors, Mr. Geoffrey Bostock, F.C.A., and Mr. L. W. Bingham, F.C.A., were thanked for their services and unanimously re-appointed. The President emphasised that they were honorary in every sense of the word, but they had done great work on behalf of the Association.

Mr. H. B. Vanstone, F.C.A.: Mr. Chairman, before we go I regard it as my pleasant duty to move a vote of thanks to you for your services as President of the Association during the past year. It will be well worth while to have the funds consolidated, and I assure you that we value the work you have done in regard to it. I have great pleasure in proposing a vote of thanks to you. (*Applause.*)

The President: Thank you very much for the way you proposed this vote of thanks to me and thank you, gentlemen, for the way you received it. There is a great deal of work done in the Benevolent Association, but it is not done solely by the President although he has to do quite a lot. A great deal of work is done by the Committee in London, and in addition we receive most valuable assistance from the Sub-Committees in the Districts who keep in touch and endeavour to see that we are not only kept informed of the facts of each case but that the aid we give is given with that human interest which means so much to the people who are in need of help or advice. I should like that vote of thanks to refer, therefore, not only to my services but also to the Districts who help us in this way. Thank you. (*Applause.*)

The President's Dinner

Mr. S. John Pears, F.C.A., the President of the Institute, gave a dinner on May 2 at Drapers Hall, London, E.C.2 (by kind permission of the Worshipful Company of Drapers). The President was supported by members of the Council, as shown below.

The following guests were present: Mr. S. J. Adams; Mr. W. G. Agnew, C.V.O. (Clerk to the Privy Council); Mr. W. M. Allen (Under-Secretary); Mr. G. R. Appleyard (Chairman, London and District Society); Mr. R. W. Bankes, C.B.E. (former Secretary of the Institute); Sir Harold M. Barton (Past President); Sir Pridham Baulkwill, C.B.E. (Public Trustee); Mr. W. Franklin Beavan, O.B.E. (President, Chartered Auctioneers' and Estate Agents' Institute); Mr. T. Hedley Bell (President of the Manchester District Society); Sir Bernhard Binder (Past President); The Lord Blackford, D.S.O.; Mr. James Blakey (Past President); Mr. Frank Booth (Chairman, Scottish Chartered Accountants in London);

Sir Herbert Brittain; Rear Admiral P. W. Burnett, C.B.E., D.S.O., D.S.C. (Secretary, The Royal Institution of Chartered Surveyors); Mr. D. Byford; Mr. G. E. Cameron (President, Institute of Chartered Accountants in Ireland); Mr. W. E. Carnelley; Mr. P. Carrel, C.M.G., O.B.E. (Under-Secretary); Mr. R. J. Carter (Secretary, London Students' Society); Mr. J. Cartner (Consultative Committee of Members in Commerce and Industry); Mr. L. F. Cheyney (Secretary, Institute of Municipal Treasurers and Accountants); Mr. H. J. Clarke (President, Nottingham Society); Mr. J. W. G. Cocke, T.D. (Secretary of the London and District Society); Mr. V. R. V. Cooper; Sir Cecil Crabbe (Chief Registrar of Friendly Societies); Mr. G. W. Davies (President, South Eastern Society); Mr. A. S. H. Dicker, M.B.E. (Past President); Lord Justice Donovan; Rev. A. J. Drewett (Rector, St. Margaret's, Lothbury); Mr. Derek du Pré (Secretary of the Institute of Cost and Works Accountants); Mr. H. Eason (Secretary of the Institute of Bankers); Mr. W. F. Edwards (Consultative Committee of Members in Commerce and Industry); Mr. W. V. Eggleton (President of the Bristol and West of England Society); Mr. R. W. L. Eke (Chairman, C.A.E.S.S.); Mr. C. A. Evan-Jones, M.B.E. (Under-Secretary); Mr. H. P. Finn (Consultative Committee of Members in Commerce and Industry); Miss Margaret Fox (Chairman of the Women Chartered Accountants Dining Society); Mr. E. J. A. Freeman; Mr. C. G. Garratt-Holden, C.B.E., T.D. (Secretary, Building Societies Association); Mr. A. A. Garrett, M.B.E. (former Secretary of the Society of Incorporated Accountants); Mr. B. W. Graves; Mr. H. Carleton Greene, O.B.E. (Director-General, B.B.C.); Mr. J. H. Gunlake, C.B.E. (President of the Institute of Actuaries); Mr. J. E. Harris (immediate Past President, The Association of Certified and Corporate Accountants); Mr. J. M. Harvey, M.B.E. (President, Liverpool District Society); Mr. M. G. J. Harvey (Accountant to the Institute); Lieut. Col. D. V. Hill (Steward of Christ Church, Oxford); Sir Alan Hitchman, K.C.B. (Administrative Director, Atomic Energy Commission); Mr. Percy F. Hughes (Editor-in-Chief of *The Accountant*); Mr. J. S. Hutchison; Sir Harold Howitt, G.B.E., D.S.O., M.C. (Past President); Mr. G. N. Hunter (Chairman, Taxation and Research Committee); Mr. P. D. Irons (former member of the Council); The Lord Jenkins (Lord of Appeal); Sir Alexander Johnston, K.B.E., C.B. (Chairman, Board of Inland Revenue); Sir Russell Kettle (Past President); Cdr. Guy D. Latham, R.N. (Master, Clothworkers' Company); Sir Joseph Latham (Consultative Committee of Members in Commerce and Industry); Mr. T. A. E. Layborn, C.B.E.; Mr. M. A. Liddell; Mr. C. H. S. Loveday (Under-Secretary); Mr. E. H. V. McDougall (Secretary, The Institute of Chartered Accountants of Scotland); Mr. Alan S. MacIver, C.B.E., M.C. (Secretary of the Institute); Mr. A. McKellar (immediate Past President, Institute of Chartered Accountants of Scotland); Mr. R. A. Marden (London Industry Group); Mr. R. H. R. Marshall (President of the Hull, East Yorkshire and Lincolnshire Society); Mr. F. M. P. Maurice (Master, Drapers' Company); Mr. A. F. Murray; Mr. A. N. Myers (President of the East Anglian Society); Mr. E. J. Newman (President of the Birmingham and District Society); Sir Edward Norman (Chief Inspector of Taxes); Sir Charles Norton, M.B.E., M.C.; Mr. John Norton; Mr. L. J. H. Noyes (Secretary, Taxation and Research Committee); Mr. W. Stuart Orr (Secretary, Institute of Chartered Accountants in Ireland); Mr. F. C. Osbourn, M.B.E. (Secretary, The Association of Certified and Corporate Accountants); Mr. Leonard Pells; Brigadier E. C. Pepper, C.B.E., D.S.O., (Warden, London House); Mr. J. Perfect; Sir Donald Perrott, K.B.E.; Mr. T. W. Pickard (President of the South Wales and Monmouthshire Society); Sir Harry Pilkington; Mr. Leslie B. Prince, C.C. (Chairman, Rates Finance Committee, Corporation of London); Mr. A. H. Proud (Consultative Committee of Members in Commerce and Industry); The Lord Radcliffe, G.B.E. (Lord of Appeal); Mr. A. P. Ravenhill (London Industry Group); Mr. J. W. Richardson (President, Sheffield District Society); Mr. W. S. Risk (President of the Institute of Cost and Works Accountants); The Lord Ritchie of Dundee (Chairman, London Stock Exchange); Mr. P. V. Roberts (former member of the Council); Mr. T. A. Roberts; Mr. J. F. Shearer, O.B.E.; Mr. A. F. Steele, M.B.E., C.C. (Master, Solicitors' Company); Mr. Rodway Stephens, C.C. (Chairman, Coal and Corn and Finance Committee, Corporation of London); Mr. G. O. Swayne, O.B.E. (immediate Past President, Institute of Builders); Mr. F. Heyworth Talbot, Q.C.; Mr. H. W. Thomson (Institute Librarian); Mr. G. L. C. Touche (former member of the Council); Mr. F. C. S. Tufton; Sir Mark Turner; Mr. C. G. Vaughan-Lee, D.S.C.; Mr. J. C. Walker (Consultative Committee of Members in Commerce and Industry); Mr. R. Walton, T.D. (President, Leeds, Bradford Society); Mr. W. S. Wareham (Secretary, Share and Loan Department, London Stock Exchange); Mr. L. H. Weatherley; Mr. Arthur E. Webb (Editor of *The Accountant*); Sir Charles Westlake; Mr. Michael Wheeler, Q.C.; Mr. D. H. Whinney, T.D. (Hon. Secretary, Chartered Accountants Dining Club); Mr. William Whitfield; Mr. A. Whittaker (President of the Northern District Society); Mr. J. M. Williams; Sir Edward Wilshaw, K.C.M.G.; Mr. J. A. Wilson (President, The Canadian Institute of Chartered Accountants); Sir John Winnifrith, K.C.B. (Permanent Secretary, Ministry of Agriculture, Fisheries and Food); Mr. R. Wood (Secretary, Scottish Chartered Accountants in London).

The Council members present were: Mr. P. F. Granger, Vice-President; Mr. J. F. Allan; Mr. E. Baldry, O.B.E.; Mr. C. P. Barrowcliff; Mr. W. L. Barrows; Mr. T. A. Hamilton Baynes; Mr. J. H. Bell; Mr. H. A. Benson, C.B.E.; Mr. P. F. Carpenter; Sir William Carrington; Mr. G. T. E. Chamberlain; Mr. D. A. Clarke; Mr. J. Clayton; Mr. C. Croxton-Smith; Mr. E. Hay Davison; Mr. W. G. Densem; Mr. S. Dixon; Mr. W. W. Fea; Sir Harold Gillett, Bt., M.C.; Mr. J. Godfrey; Mr. G. G. G. Goult; Mr. L. C. Hawkins; Mr. J. S. Heaton; Mr. D. V. House; Mr. J. A. Jackson; Mr. H. O. Johnson; Mr. W. H. Lawson, C.B.E.; Mr. R. B. Leech, M.B.E.; Mr. E. N. Macdonald, D.F.C.; Mr. R. McNeil; Mr. J. H. Mann, M.B.E.; Mr. R. P. Matthews; Mr. Bertram Nelson, C.B.E.; Mr. W. E. Parker, C.B.E.; Mr. F. E. Price; Mr. L. W. Robson; Sir Thomas Robson, M.B.E.; Mr. J. D. Russell; Mr. D. Steele; Mr. C. M. Strachan, O.B.E.; Mr. J. E. Talbot; Mr. A. H. Walton; Mr. V. Walton; Mr. F. J. Weeks; Mr. M. Wheatley Jones; Mr. E. F. G. Whinney; Mr. J. C. Montgomery Williams; Mr. R. P. Winter, C.B.E., M.C., T.D.; Mr. E. K. Wright; Sir Richard Yeabsley, C.B.E.

Members' Library

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gift are the following:

A Berliner Research Report on Accounting for Paper Mills. (J. J. Berliner & Staff.) New York. (*c.* 1952). (J.J.B. & Staff, 126s.)

Accounting Trends and Techniques in published corporate annual reports. (American Institute of Certified Public Accountants.) 14th edn. New York. 1960. (A.I. of C.P.A., 150s.)

Automatic Data-processing Systems: principles and procedures; by R. H. Gregory and R. L. Van Horn. 1960. (Chatto & Windus, 55s.)

Companies Act (Northern Ireland), 1960. (Northern Ireland.) Belfast. 1960. (H.M.S.O., 16s. 6d.)

Companies: law and practice; by S. W. Magnus and M. Estrin: 3rd edn. 1957. Supplement 1961. (Butterworths, 10s. 6d.)

The Control of Hire-purchase; by F. R. Oliver. 1961. (George Allen & Unwin, 25s.)

Cost Administration: Cases and Notes: accounting for cost control and product decision; by E. D. Bennett. Englewood Cliffs, N.J. 1960. (Prentice-Hall, 67s. 6d.)

Current Application of Direct Costing: research report 37. (National Association of Accountants.) New York. 1961. (N.A.A., $2.00.)

Duties of a Company Secretary; by T. Bolton and P. F. Hughes: 2nd edn. 1960. (Secretaries Journal, 30s.)

Enforcement of Planning Control; by H. J. J. Brown. 1961. (Sweet & Maxwell, 17s. 6d.)

Guide to Company Balance Sheets and Profit and Loss Accounts; by F. H. Jones: 5th edn. Cambridge. 1961. (Heffer, 55s.)

Guide to Creditors Voluntary Winding Up with set of usual drafts and forms. (Longacre Press Services.) [1961.] (Longacre Press, 21s.)

Hanson's Death Duties; by A. Hanson: 10th edn. by H. E. Smith. 1956. 5th supplement 1961. (Sweet & Maxwell, 126s. and 25s.)

Hire Purchase in a Free Society; by R. Harris, Margot Naylor and A. Sheldon: 3rd edn. 1961. (Hutchinson, 30s.)

How to Make Money on the Stock Exchange; by K. S. Most. 1961. (Museum Press, 15s.)

Income Tax; by J. L. Mellor. 1961. (Pitman, 30s.)

Introduction of Double-entry Book-keeping to Japan by Vicente E. Braga in 1870s; by D. Nishikawa. Tokyo. 1960. (Moriyama Book Store, presented by the author.)

The Investor's Manual 1961 . . . (Nicholas Kaye.) 1961. (N.K., 18s.)

Lands Tribunal Practice and Procedure and Guide to Costs; by R. F. C. Roach. 1961. (Sweet & Maxwell, 25s.)

The Law of Stamp Duties; by J. G. Monroe: 3rd edn. 1961. (Sweet & Maxwell, 42s.)

Liquid History: to commemorate fifty years of the Port of London Authority 1909–1959; by A. Bryant. 1960. (P.L.A., gratis.)

Mathematics in the Making; by L. Hogben. 1960. (Macdonald, 50s.)

Members Voluntary Winding Up: Statutory Requirements with set of all necessary drafts and forms. (Longacre Press Services.) [1961.[(Longacre Press, 21s.)

Ownership, Control and Success of Large Companies: an analysis of English industrial structure and policy 1936–1951; by P. S. Florence. 1961. (Sweet & Maxwell, 63s.)

Sixteenth-Century Writings on Bookkeeping; by Dorothea D. Reeves. (Reprinted from the Business History Review No. 3, 1960.) (Presented by the Baker Library, Harvard Un., Boston.)

Stone & Cox ordinary branch Life Assurance Tables . . . (Stone & Cox). [Looseleaf]. From 1961. (Stone & Cox.)

Stamp Duties; by F. Nyland: 2nd edn. 1957. 2nd supplement, 1961. (Butterworth, 6s.)

Tramp Shipping; by H. Gripaios. 1959. (Thomas Nelson, 25s.)

Uniform C.P.A. Examination Questions and Unofficial Answers: November 2–4, 1960. (American Institute of Certified Public Accountants.) New York. 1961. (A.I.C.P.A., presented.)

District Societies

LIVERPOOL

MR. PHILIP CUTHBERT LLOYD, F.C.A.

Mr. Philip Cuthbert Lloyd, F.C.A., *the new President of the Liverpool Society of Chartered Accountants, is a partner in the firm of J. B. Hughes & Lloyd, in which he follows his father, Mr. Philip Alexander Lloyd,* F.C.A., *and his grandfather, the late Mr. Philip Lloyd,* F.C.A.. *He was educated at Liverpool College and became an associate of the Institute in 1938 and a fellow in 1946. During the war he served in the Royal Army Service Corps, graduating at the Staff College, Camberley, in 1942 and thereafter serving as a D.A.Q.M.G. in 21 Army Group and later as G.S.O. II at the Staff College, Quetta, India. He retired with the rank of major.*

Mr. Lloyd is a director of several companies, managing secretary of two Liverpool building societies and secretary of the Liverpool and District Master Printers' Association, and until recently he was secretary of the Merseyside Productivity Association. In 1952 he visited the United States of America as a member of the Lithographic Printing Productivity Team sent by the British Federation of Master Printers.

AT A COMMITTEE meeting on May 10 the following officers were elected for 1961/62: President, Mr. Philip Cuthbert Lloyd, F.C.A.; Vice-President, Mr. Stanley Morris, F.C.A.; Hon. Secretary, Mr. J. H. Bradley, F.C.A.; Hon. Treasurer, Mr. Clifford Pearson, F.C.A.; Hon. Assistant Secretary, Mr. J. S. Ellison, M.A., A.C.A.

MANCHESTER

Annual Report

MEMBERSHIP AT THE end of 1960 was 1,583 (including 412 members of the North Lancashire Branch and 101 of the Bolton), an increase of fifteen over last year.

The annual dinner on November 17 was attended by 400 members and guests. An informal sherry party was held in September for successful finalists in the Institute examinations. Three evening and nine luncheon meetings were held during the year, with eight discussion group meetings.

The Committee congratulates three students who gained certificates of merit in the examinations: B. Tomlinson and F. Donnelly in the Final, and B. Craighill in the Intermediate. The prizes open to candidates in the Manchester area went to: B. Tomlinson (four Manchester prizes — also the Walter Knox scholarship, the Frederick Whinney Prize and two Plender Prizes) J. D. C. Pilling (two), B. Craighill, N. R. Davies, A. L. Smithson and M. A. Parkinson.

The Joint Tuition Committee was responsible for a new Residential Course successfully launched at Lyme Hall, near Stockport, which takes the place of the revision courses formerly held at Burton Manor in conjunction with the Liverpool Society of Chartered Accountants.

Mr. D. N. Walton has continued his active work as Careers Honorary Secretary.

SOUTH EASTERN

MR. A. S. WATSON, F.C.A.

Mr. A. S. Watson, who has been elected President of the South Eastern Society of Chartered Accountants, qualified in May, 1933, with Honours in the Final examination. After three years in Penang, Straits Settlements, he joined the London firm of Barton, Mayhew & Co. until the war. Enlisting as a private in September, 1939, Mr. Watson was demobilised as a major in October, 1945, having seen service from Dunkirk to North Africa and Italy. In 1949 he was admitted a partner in the firm of Woolley & Waldron, Southampton, which he had joined three years earlier.

Mr. Watson founded the Southampton and District Chartered Accountant Students' Society in December, 1949, and was its first Chairman, being President from 1953 to 1960. For five years he was Hon. Treasurer of the South Eastern Society. In 1959 he became a Vice-President of the South Eastern Society and Chairman of the Hants. and Dorset Branch.

THE FOLLOWING OFFICERS have been elected: President, Mr. A. S. Watson, F.C.A.; Vice-Presidents, Mr. A. D. Langridge, F.C.A., and Mr. R. D. Peaice, F.C.A.; Hon. Treasurer, Mr. J. H. Mitchener, F.C.A.; Hon. Secretary, Mr. W. R. McBrien, F.C.A.; Auditor, Mr. E. F. L. Sutton, F.C.A.

Annual Report

THE COMMITTEE ANNOUNCES a membership of 352 for the Kent and Sussex Branch, and 215 for Hants. and Dorset: total 567 as compared with 547 for 1960.

Throughout an active year meetings were held in Southampton, Wimborne, Basingstoke, St. Leonards, Crawley, Portsmouth, Canterbury, Hastings, Maidstone, Bognor Regis and the Isle of Wight.

The annual residential course was again held at Brighton in two sections, one for Intermediate students and one for Final. Comprehensive programmes of lectures, educational visits and social functions were arranged by the five Students' Societies in the area.

The President, Mr. G. W. Davies, has visited most of the Groups during the past year, and the Committee expresses its deep appreciation of his efforts. Its thanks are also due to Mr. W. R. McBrien, the Hon. Secretary, and Mr. T. T. Nash, who once more ensured that the Residential Course should be an unqualified success.

WOLVERHAMPTON BRANCH

THE FOLLOWING OFFICERS have been elected: Chairman, Mr. J. S. Holloway; Vice-Chairman, Mr. J. Hollingsworth; Hon. Secretary, Mr. G. St. C. Wycherley; Hon. Treasurer, Mr. D. H. Burton; Committee, Mr. N. Kirkham, Mr. R. Gronow, Mr. J. T. Chaplin, Mr. E. M. Ions, Mr. J. A. B. Stallard.

Students' Societies

EAST ANGLIAN

THE FOLLOWING OFFICERS have been elected for the year 1961/62: President, Mr. F. Steward, F.C.A.; Vice President, Mr. B. W. Barbour, A.C.A.; Hon. Treasurer, Mr. J. R. Chaplin; Hon. Secretary, Mr. B. S. Topple.

LONDON

Annual General Meeting

THE ANNUAL GENERAL meeting of the London Students' Society was held on April 24, with Mr. W. E. Parker, C.B.E., F.C.A., the President, in the chair.

Mr. R. E. J. Fisher, the Chairman of the Committee, who seconded the adoption of the report and accounts for 1960, reminded members that the object of the Society was the professional education of its student members and that its funds were provided by principals for this purpose. He referred specially to two matters of current interest, the proposal to start a magazine in the Society and the project for a students' centre. The Committee invited all members to send in articles and suggestions for the magazine, and they would welcome offers of editorial help from members with such experience. The students' centre was proving a difficult matter: the most promising possibility was a place in the City's Barbican development scheme, though unfortunately this would not come to fruition for some years. The main demand from members had been for lunching facilities, but this had so far proved far too expensive.

Mr. Fisher also referred to the possible effect upon students' societies' activities of the Parker Report which would be published on May 5. In formally seconding the motion, he thanked the Society's staff for their work during the year and the members present for the interest they were showing in attending the meeting.

Some objection was expressed from the floor to the circular issued by the Committee calling upon members to come to the meeting and vote. The Chairman replied that he could not see how members could object to the Committee's effort to get as many as possible to the meeting, so that the Society was not dominated by a small fraction of the membership.

After several members had pointed out that a major cause of the lack of attendance at some Students' Society lectures was the increasing difficulty of obtaining leave from the office, the accounts and report were adopted.

A motion to substitute postal voting for personal voting in the election of members of the Committee was defeated. A motion to reduce the maximum number of qualified members of the Committee from six to four was carried; one to reduce the representation of the branches was withdrawn after some discussion. The meeting resolved that minutes of the meetings of the Committee be made available for inspection in the Library.

Motions calling for immediate results in the project for a students' centre were withdrawn after the Chairman had pointed out that the Committee was in full sympathy with the feelings of the proposers, but the difficulties were formidable and precipitate action might easily jeopardise the whole scheme.

The following officers were re-elected: President, Mr. W. E. Parker, C.B.E., F.C.A.; Retiring Vice-Presidents, Sir Thomas Robson, M.B.E., M.A., F.C.A., Mr. Brian Manning, C.B.E., D.L., J.P., F.C.A., and Mr. J. A. Jackson, F.C.A.; Hon. Treasurer, Mr. W. K. Wells, B.A., F.C.A.; Hon. Auditors, Mr. H. O. H. Coulson, F.C.A., and Mr. R. G. Leach, C.B.E., F.C.A.

The following elections to the Committee were made: Re-elected, Mr. B. J. Arthur, Lt.-Cdr. A. C. E. Higgens, D.S.C., A.C.A., R.N., Mr. C. L. Llewellyn-Smith, Mr. V. G. B. Walt and Mr. D. R. Waters. New members: Mr. N. M. G. Le Blanc, Mr. B. K. P. Moll and Mr. J. Woolgar.

The meeting closed with a very hearty vote of thanks to Mr. Parker for his friendly conduct of a lively meeting.

News from the Committee

Spring Session

The spring session was concluded on April 24 with the annual general meeting.

About 150 attended the mock company liquidation meeting, and many took an active part in what proved to be an interesting demonstration.

Another Whole-Day Course was held. The attendance was 110, mainly students who are unable to attend the Society's evening meetings.

Members on the Mechanised Accounting Course have been given a demonstration by Kalamazoo and a lecture and film by Lamson Paragon. A party of pre-Intermediate students was shown round Ford's.

The Cambridge Weekend Residential Course, designed for members in the first and second years of articles, attracted 244, more than any previous course. Two colleges were again used for accommodation.

The Debating Society held a dinner debate and mock parliament.

Publicity and Magazine Sub-Committee

This sub-committee, set up recently to consider in what way the Society's affairs might be better publicised, is discussing a handbook on the Society for the information of new members, and the possibility of making more personal announcements of other activities at students' meetings. It has also been decided to seek the assistance of the Public Relations Committee of the Institute.

Students' Social Club

The Committee has rejected a proposal for the Society to use exclusively a West End Club in the evenings. It was felt that this was too far removed from the Sub-Committee's terms of reference, namely, to consider the feasibility of opening a Centre where meals, social events, study facilities, etc., could be provided, if possible including office and library accommodation.

Officials of the Barbican Scheme have intimated that they are favourably considering the Society's application for sufficient space to hold the offices and proposed Students' Centre, but this is still a few years in the future.

Union of Chartered Accountant Students' Societies

MEMBERS OF students' societies are reminded that all students' societies welcome to their meetings members of other societies who are temporarily in their area. Announcements of meetings, arranged alphabetically under towns, are given in the feature "Forthcoming Events" in each issue of ACCOUNTANCY.

There is also an arrangement for transfer of membership without additional fee for

members who permanently change their district. The interchange should be carried out through the secretaries of the societies concerned.

Chartered Accountants' Hockey Club

IN THE RECENT international match between England and Wales, the teams included the following present and past members of the Chartered Accountants' Hockey Club: J. W. Neill and C. J. Key for England and C. H. Dale and G. T. Whiteway for Wales.

The club's players include both members and articled clerks. It has a fixture list covering winter and summer games. Matches are arranged with the Law Society, Chartered Surveyors, Insurance Hockey Association, Inland Revenue, Bank of England and Oxford University Occasionals.

Players who are interested are invited to write to the Hon. Secretary, Mr. S. N. Elgar, at 22 Queen Anne Street, London, W.1.

Forthcoming Events

BIRMINGHAM
Members' Meeting

May 20. — Luncheon meeting. Imperial Hotel, Temple Street, at 12.30 for 1 p.m., followed by annual general meeting.

Students' Function

June 2. — Annual summer dance. The Botanical Gardens, Edgbaston.

GRIMSBY

June 19. — Members' luncheon. Royal Hotel, at 1 p.m.

HUDDERSFIELD

June 20. — Members' luncheon meeting. Whiteley's Cafe, Westgate, at 12.30 for 12.45 p.m.

LEEDS

May 26. — Members' luncheon meeting. Great Northern Hotel, at 12.45 p.m.

LONDON

June 7.—Special meeting of The Institute of Chartered Accountants in England and Wales. Hall of the Chartered Insurance Institute, 20 Aldermanbury, E.C.2, at 2 p.m.

MANCHESTER

June 15.—Students' dance. The Cumberland Suite, Belle Vue, at 8 p.m.

SHEFFIELD

May 27.—Students' Society annual general meeting. Law Society Library, Campo Lane, at 11 a.m.

YORK

May 31.—Members' luncheon meeting. De Grey Rooms, at 1 p.m.

Personal Notes

Messrs. Keens, Shay, Keens & Co., Chartered Accountants, London, E.C.2, and branches, announce that they have admitted Mr. R. E. Wright, A.C.A., to the partnership. Mr. Wright has been a senior member of the staff for some years.

Messrs. Ogden, Hibberd Bull & Langton, Chartered Accountants, London, E.C.1, announce that, after 35 years as a partner, Mr. Ronald B. Ogden, F.C.A., has retired from the firm, but he retains an office at their address and is available for consultation by arrangement.

Messrs. Harry L. Price & Co., Chartered Accountants, Manchester, announce that they have admitted into partnership Mr. N. A. Armstrong, A.C.A., and Mr. R. J. Charlton, B.A.(COM.), A.C.A., who have been members of their staff for some time.

Messrs. Arthur Young & Co. (London Office) announce that they have opened branch offices in Djakarta and Palembang, Indonesia, with Mr. C. R. Warman, A.C.A., as the resident partner in Indonesia.

Messrs. Litton, Pownall, Blakey & Higson and their associated firms, Messrs. Astbury, Mitcheson & Miller, and Messrs. Dryden, Dorrington & Co., Chartered Accountants, Manchester, have admitted to partnership Mr. David P. Harlow, A.C.A., and Mr. Keith Ashton, A.C.A., who were previously senior members of the staff.

Messrs. Robert H. Marsh & Co., Chartered Accountants, London, E.C.2, announce that Mr. Hamish S. Renton, A.C.A., has been admitted to partnership.

Messrs. Wall and Tanfield, Chartered Accountants, and Messrs. Fox & Co., Chartered Accountants, Birmingham and Dudley, announce that Mr. C. H. Bowles, F.C.A., who has been a member of the staff for some years, has become a partner in both firms.

Messrs. Rhodes, Stringer & Co. and Messrs. Rushworth, Ingham & Rhodes announce that they have amalgamated their practices under the style of Rhodes, Stringer, Ingham, Clare & Co., Chartered Accountants, 45 Well Street, Bradford. All the partners in the old firms continue their association in the new, and Mr. James R. Akester, A.C.A., who served his articles with Messrs. Rhodes, Stringer & Co., has been admitted as a partner.

Messrs. Weeks, Green & Co., Chartered Accountants, Southampton, announce that Mr. C. W. Eades, A.C.A., who has been a senior member of their staff for the past three years, has been admitted as a partner. The name of the firm remains unchanged.

Messrs. Gundry, Cole & Co., Chartered Accountants, London, E.C.2, announce that Mr. Thomas J. Bond, F.C.A., the senior partner, has retired from the partnership after being in practice with the firm for fifty-one years. The firm continues without change of name.

Messrs. Hill, Vellacott & Bailey, Chartered Accountants, London, W.C.2, announce that Mr. John F. M. P. Bailey, M.A., LL.B., A.C.A., younger son of the late Mr. John Bailey, has been admitted into partnership.

Mr. F. E. Gibb, F.C.A., has been appointed chief accountant to A. G. Wild & Co. Ltd., Sheffield.

Messrs. Bernard Goodwin & Co., Chartered Accountants, London, E.C.2, and Messrs. Alan Massing & Co., Chartered Accountants, London, W.C.2, announce that they have amalgamated their practices under the style of Goodwin, Massing & Co., Chartered Accountants, 70 Finsbury Pavement, Moorgate, London, E.C.2.

Mr. Ernest Oxley, F.C.A., F.C.I.S., has been appointed financial director of Leyland Paint & Varnish Co. Ltd., Leyland, Lancashire.

Messrs. J. & H. S. Metcalf, Chartered Accountants, Cardiff, announce that Mr. R. C. Daniel, A.C.A., has been admitted into partnership. The name of the firm has been changed to Daniel, Hughes & Co., incorporating J. & H. S. Metcalf. The address is unchanged.

Messrs. Shipley, Blackburn, Sutton & Co., Chartered Accountants, London, S.W.1, announce that they have admitted into partnership Mr. George Williams, A.C.A., Mr. R. D. Pearcy, A.C.A., and Mr. P. D. Jones, F.C.A., all of whom have been associated with the firm for some years.

Messrs. Shipley, Blackburn, Sutton & Co., Chartered Accountants, London, S.W.1, and Messrs. Shipley, Milton & Co., Pinner, Middlesex, and London, W.C.1, announce that they have amalgamated their practices, which will be continued in the name of Shipley, Blackburn, Sutton & Co. from all three addresses.

Messrs. Fitzpatrick, Graham & Co., Chartered Accountants, London firm, announce that they have taken into partnership Mr. Kenneth Hunt, A.C.A., who has been a member of the staff for a number of years.

Removals

Messrs. Lomax, King & Rothmer, Chartered Accountants, have changed their address to 1 North Parade, Parsonage Gardens, Manchester, 3.

Messrs. Claridge, Turner & Co., Chartered Accountants, have removed to Auburn House, 8 Upper Piccadilly, Bradford, 1. The offices at Leeds Road and Sunbridge Road have both been closed.

APPOINTMENTS VACANT

(*continued from page xxxvi, facing page 313*)

OXFORD Chartered Accountants with a wide and varied practice have a vacancy for a Senior Audit Clerk with or without post qualification experience. Salary according to experience. Pension scheme. Flat available. Write giving details of experience and salary required to Box No. 52, c/o ACCOUNTANCY.

PEAT, MARWICK, MITCHELL & CO. have vacancies in their London office for young Chartered Accountants who wish to widen their experience in all branches of accountancy. Excellent prospects, good starting salary, pension scheme. Opportunities for service overseas. Applications to 11 Ironmonger Lane, E.C.2.

SEMI-SENIOR required by City firm with expanding practice. Excellent prospects. Salary up to £650 according to experience. Box No. 32, c/o ACCOUNTANCY.

SENIOR. Chartered Accountant required by City firm. Excellent prospects for newly-qualified man desiring to widen experience. Salary £850 to £1,100. Pension scheme. Box No. 31, c/o ACCOUNTANCY.

TAXATION ASSISTANT required by Oxford firm of Chartered Accountants to deal with all Income Tax and Surtax matters relating to individuals, partnerships and companies. Accommodation (flat) may be available if required. Pension scheme. Salary according to experience. Apply with full particulars and stating salary required to Box No. 51, c/o ACCOUNTANCY.

TWO CHARTERED ACCOUNTANTS wanted by expanding Holborn firm of Chartered Accountants; one for senior position on auditing staff, and the other as personal assistant to Partner dealing with taxation and special matters. Write Box No. 902, PRATT & CO., 133 Oxford Street, London, W.1.

VACANCIES available for qualified Accountants in South America, West Indies, Rhodesia, Kenya, Far East and the Continent. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate, E.C.2.

UGANDA—ACCOUNTANTS

Agricultural Enterprises Limited (a subsidiary of Uganda Development Corporation Limited) invites applications for appointment from experienced accountants. Salary commensurate with experience and qualifications; free housing; usual overseas benefits; three year contract. Applications giving full details should be sent to UGANDA DEVELOPMENT CORPORATION LIMITED, Uganda House, Trafalgar Square, London, W.C.2.

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Applications are invited for the position of ASSISTANT MANAGER at a commencing salary of £1,800 per annum, with a non-contributory pension at age 65.

Applicants, who should preferably be Chartered or Certified Accountants, must be between 30 and 40 years of age, must have a sound practical and theoretical knowledge of Building Society Law and Practice, and have supervisory experience in all departments of a Building Society.

Applications, stating age, experience, and qualifications, must be sent, in an envelope endorsed "Assistant Manager" to the General Manager, 321 High Street, West Bromwich, Staffs, to arrive by June 17.

PRACTICES AND PARTNERSHIPS

AUSTRALIAN REPRESENTATION.—Australian-wide firm of Chartered Accountants wishes to arrange representation and reciprocal arrangements with United Kingdom firm preferably, but not necessarily, also affiliated in United States of America. HORNEMANN, LODER & CO., c/o Institute of Chartered Accountants in Australia, 23 McKillop Street, Melbourne, C.1, Australia.

CHARTERED ACCOUNTANTS. Provincial firm desirous of appointing resident partner in their old-established London Office seek contact with experienced Chartered Accountant. Would consider applicant already in practice. Enquiries invited giving personal particulars, details of experience and nature of practice (if any) in strict confidence. Box No. 47, c/o ACCOUNTANCY.

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A PAKISTANI Master of Commerce seeks articled clerkship with any firm of Chartered Accountants. Write HAFIZ CHOUDBURY, 106 Oldfield Road, Birmingham 12.

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